Session 2006/2007 **First Report**

COMMITTEE FOR FINANCE AND PERSONNEL

First Report on Workplace 2010 and Location of Public Sector Jobs

TOGETHER WITH THE MINUTES OF PROCEEDINGS OF THE COMMITTEE RELATING TO THE REPORT, WRITTEN SUBMISSIONS, MEMORANDA AND THE MINUTES OF EVIDENCE

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Committee for Finance and Personnel Membership and Powers

Powers

The Committee for Finance and Personnel is a Statutory Departmental Committee established in accordance with paragraphs 8 and 9 of the Belfast Agreement, Section 29 of the NI Act 1998 and under Assembly Standing Order 46. The Committee has a scrutiny, policy development and consultation role with respect to the Minister 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 primary legislation;
- call for persons and papers;
- initiate inquires and make reports; and
- 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, with a quorum of five members.

The membership of the Committee since its establishment on 09 May 2007 has been as follows:

Mr Mitchel McLaughlin (Chairman)
Mr Mervyn Storey (Deputy Chairman)
Mr Roy Beggs
Dr Stephen Farry
Mr Simon Hamilton
Mr Fra McCann
Ms Jennifer McCann
Mr Adrian McQuillan
Mr Declan O'Loan
Ms Dawn Purvis
Mr Peter Weir

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Executive Summary

At its first meeting on 16 May 2007 the Committee for Finance and Personnel agreed to include in its work programme to summer recess an initial scrutiny of Workplace 2010 (WP2010) and the Location of Public Sector Jobs. Mindful that decisions are pending by the Minister and the Executive on both issues, the Committee undertook this scrutiny in the period 6 June to 4 July 2007. This first report represents the outcome of the Committee's initial considerations.

The stated strategic objectives of WP2010 are to enable the Northern Ireland Civil Service (NICS) to transform the way it delivers public services; to provide accommodation in which staff are proud to work; and to safeguard funding for priority front line services. The programme will develop new workplace standards that will support the modernisation of the NICS, whilst also addressing urgent accommodation problems facing the office estate.

WP2010 is presently following a Total Property Private Finance Initiative (PFI) procurement solution, which will include the sale of about three quarters of the NICS office estate to a Private Sector Partner (PSP). In return the PSP will make an upfront capital payment for the transferred assets, upgrade a number of key properties and maintain and service the accommodation in return for a monthly 'unitary charge', payable throughout the 20/25 year duration of the PFI contract. This represents the largest PFI contract of its kind in Northern Ireland (NI) and one of the largest in the UK. The resulting commitment would effectively double the PFI debt to be repaid by the devolved administration, from the present £1.5 billion liability.

Given the scale and duration of WP2010, the stakes are high and much hinges on the robustness and reliability of the Final Business Case in reassessing the procurement options and determining the best value for money and affordable solution. If the PFI approach is confirmed, the pivotal issues then will be whether the final contract takes full account of best practice in PFI procurement and whether the subsequent contract management arrangements are effective.

In a separate initiative, the Department of Finance and Personnel (DFP) commenced a public consultation on *Guiding Principles for the Location of Public Sector Jobs in Northern Ireland* in January 2007. Whilst the issue of jobs location is distinct from WP2010, the Committee has considered both matters in tandem. This approach reflects a general concern that WP2010 could significantly reduce the Executive's flexibility to determine the future location of public sector jobs.

The Committee's examination of Public Sector Jobs Location focuses on the economic and social benefits from a strategic approach to jobs location. Consideration is given to the scope and constraints for dispersal, to the approaches being taken elsewhere and to the relevance of existing cross-cutting policies, not least the Regional Development Strategy.

The Committee received evidence from a range of stakeholders, including: DFP, on both WP2010 and Public Sector Jobs Location; NI Statistics and Research Agency, on its initial review of the WP2010 pilot project at Clare House; NI Audit Office and the National Audit Office, on best practice approach to PFI; and the NI Court Service, on its experience of the Laganside Courts PFI project. Finally, the Committee was able to draw on a range of published sources, including an Inquiry report by its predecessor committee into Public Private Partnerships and a recent report on WP2010 and Public Sector Jobs Location by the Committee on the Programme for Government.

From the evidence received, the Committee has made a range of recommendations on WP2010, designed to establish necessary safeguards and assurances before the Minister and the Executive make final decisions on the project, and on the Location of Public Sector Jobs, aimed at encouraging progress on this front and at maximising the potential economic and social benefits of a strategic dispersal policy.

Key Conclusions and Recommendations

Workplace 2010

1. The Committee acknowledges the context in which WP2010 has been initiated and developed and fully supports the strategic objectives of the programme which aim to:

- enable the NICS to transform the way it delivers public services, in terms of efficiency and effectiveness;
- provide accommodation in which staff are proud to work; and
- safeguard funding for priority front line services.

The Committee also supports the more immediate objectives of addressing the backlog of maintenance within the NICS estate, of preserving existing investment and of improving the working environment for staff generally. The political objectives of contributing to local economic growth and of providing the flexibility to respond to political commitments on the location of civil service jobs are also to be particularly welcomed. (Paragraph 16)

2. The Committee has concerns with some of the findings from the initial 'health check review' of the pathfinder project for WP2010 at Clare House and considers that the Department can learn valuable lessons from this exercise. In particular, there will be a need to ensure that in all future relocations under WP2010, provision is made for the proper introduction and testing of IT equipment, thereby avoiding disruption to staff and to the provision of public services. The Committee awaits with interest the outcome of the fuller post-occupancy evaluation in September 2007, as this should provide a clearer assessment of the merits and implications of moving to an open-plan office environment. Also, in terms of future accommodation provision, the Committee expects that, in the consideration of the WP2010 accommodation options, equal office accommodation standards will apply. (Paragraph 21)

3. The Committee calls upon the Department, in finalising the business case, to give due regard to the concerns around the use of public sector comparators and to reassess the procurement options in broad and strategic terms, ensuring that the final value-for-money appraisal takes account of the indirect and long-term, as well as the direct and short-term benefits, risks, uncertainties and costs. (Paragraph 26)

4. The Committee recommends that the final assessment of the procurement options for WP2010 should include careful consideration of the full range of qualitative, as well as quantitative, factors. This will account for potential changes and uncertainties, including, for example, the Executive's control and flexibility over future decisions on government accommodation and wider public expenditure and administration matters. (Paragraph 27)

5. The Committee considers that, in terms of WP2010, there is a very high risk associated with accepting an up-front capital receipt which is substantially lower than the full market value of the properties. There is therefore a need to ensure that, should the Department pursue such an approach, it fully addresses this risk in the termination clauses of the contract. (Paragraph 32)

6. Given the volatility of the property market and taking into account the views expressed by the NI Audit Office, the Committee considers it to be a minimum requirement for the WP2010 project team to obtain accurate and up-to-date valuations for the transferred assets. The Committee recommends that the properties to be included in WP2010 should be valued by an independent commercial valuer in addition to the public sector valuer, and that these valuations should be updated before the conclusion of

negotiations. Furthermore, the WP2010 project team should be able to demonstrate that both the upfront capital payment and the remaining net value of the transferred assets are clearly reflected in the up-to-date valuation in the financial model. (Paragraph 33)

7. Going forward, the Committee calls for transparency in the establishment of the affordability model and the efficacy of financing arrangements of the Total Property PFI option. In addition, the Committee believes that there should be greater transparency in relation to the long-term commitments arising from PFI deals in NI and in their impact on future budgetary flexibility and affordability. In this respect, the Committee believes that the affordability of the Total Property PFI option proposed for WP2010 should not be considered in isolation, but must also be considered in terms of its impact on the collective commitments arising from PFI deals and indeed commitments arising from other long-term borrowings. (Paragraph 34)

8. The Committee recommends that if the WP2010 project is to proceed on a PFI basis then the Department should ensure that the full range of applicable best-practice approaches and lessons identified from existing PFI experience, including those outlined in this report, are applied in respect of the Final Business Case, the final contract and contract management arrangements. (Paragraph 53)

9. Given the scale, complexity and importance of WP2010 and the range of safeguards required, the Committee seeks firm assurances from the Department on the following:

- that the Final Business Case will be independently and objectively assessed, not only in terms of the process and methodology followed in its preparation but, more particularly, in terms of the underlying assumptions, calculations, analyses, conclusions and recommendations contained therein;
- that this assessment will cover, amongst other things, the robustness of the Public Sector Comparator, the qualitative and quantitative evaluation criteria and the application of these against the different procurement options, as well as the comparisons of the costs, benefits, risks, uncertainties, optimism bias and the sensitivity and the affordability analyses associated with the different procurement options; and
- that, in the event of PFI being confirmed as the best value for money and most affordable solution, the final contract will provide for all necessary safeguards, including those identified in this report.

The Committee regards these measures as being necessary and valuable in providing the optimal level of independent and objective assurance to the Minister, and ultimately to the Executive and the wider Assembly. (Paragraph 59)

10. The Committee recommends that any additional assessment or work necessary to provide the required assurances should be undertaken promptly and immediately once the Final Business Case and final contract are available. (Paragraph 60)

Location of Public Sector Jobs

11. The Committee recommends that the Department and the wider Executive implement the recommendation by the Committee on the Programme for Government, to develop an affirmative policy for the dispersal of public sector jobs, which ensures the capacity of the public sector to deliver a range of services efficiently and effectively, through a sustainable approach, and implemented ‘for the benefit of the whole of NI, as a matter of priority’. (Paragraph 63)

12. In echoing the call for an affirmative policy on dispersal, the Committee contends that this policy should not be framed simply in terms of the demographics of public sector jobs location or the need to transfer jobs outside the Belfast area. Rather, a strategic approach is required – in terms of the locations selected, the number, types and grades of jobs, and the functions or business units to be relocated – to maximise the benefits throughout NI. The Committee further believes that the Department, in categorising the location of offices within the public sector, should accurately reflect geographic reality. (Paragraph 64)

13. The Committee seeks further assurances that the final WP2010 contract and projected costs do not militate against future strategic decisions on the location of public sector jobs. (Paragraph 69)

14. Whilst acknowledging that the conditions in NI, in terms of the location of public sector jobs, will differ from elsewhere, the Committee, nonetheless, calls on the Department to learn the lessons from the international experience of public sector jobs dispersal and apply these, as appropriate, in the NI context. (Paragraph 80)

15. The Committee considers that, whilst the costs of dispersal are important, including the immediate investment requirements and shorter-term value-for-money considerations, the Department should give appropriate weighting to the longer-term strategic gains, including the potential of dispersal as a tool for supporting the development of the regional economic hubs and, thereby, closing the significant regional economic and prosperity gaps within NI. (Paragraph 85)

16. The Committee recommends that, as a complement to a high-level affirmative policy on dispersal, the Department takes the lead in developing a cross-cutting strategy on jobs location, covering NICS, local government and the wider public sector. This strategy should apply best practice, based on experience elsewhere, in providing a methodology for applying the guiding principles and for initiating and implementing individual dispersal projects. (Paragraph 87)

17. The Committee further recommends that, for the purposes of informing the strategy on jobs location, the Department commissions an independent study on how best to maximise the longer-term economic, social and environmental benefits from an affirmative dispersal policy. (Paragraph 88)

Introduction

Background

1. Workplace 2010 (WP2010) is a major element of the Civil Service Reform Programme. WP2010 aims to develop a strategic and affordable solution to the urgent accommodation problems facing the Northern Ireland Civil Service (NICS) office estate. It is a co-sponsored programme between the Department of Finance and Personnel (DFP) and the Strategic Investment Board (SIB). The stated strategic objectives of the programme are to enable the NICS to transform the way it delivers public services; to provide accommodation in which staff are proud to work; and to safeguard funding for priority front line services.

2. The WP2010 programme is presently following a Total Property Private Finance Initiative (PFI) procurement route, which will include the sale of about three quarters of the NICS office estate (77 buildings, about half of which are in the Greater Belfast area and the remainder, including the Jobs and Benefits Office network, in a number of regional towns). The estate would be sold to a Private Sector Partner (PSP). In return the PSP will: make an upfront capital payment for the transferred assets (of an amount yet to be determined), which will be reinvested in priority frontline services; invest approximately £100m into the estate to upgrade and refurbish about 15 key properties; and manage the movement of approximately 11,000 staff into the newly refurbished accommodation. The PSP will also be responsible for maintaining and servicing the accommodation in return for a monthly payment, known as a 'unitary charge', payable throughout the 20/25 year duration of the PFI contract.

3. In a separate initiative, DFP commenced a public consultation on *Guiding Principles for the Location of Public Sector Jobs in Northern Ireland* in January 2007.[1] Whilst the Committee recognises that the issue of jobs location is distinct from WP2010, it has followed the approach adopted by the Committee on the Programme for Government in considering the issues in tandem. This approach reflects a general concern that WP2010 could significantly reduce the Executive's freedom to determine the future location of public sector jobs.

Current Position

4. WP2010 is at an advanced stage of procurement, with two bidders (Land Securities Trillium and Telereal) successful at the recently announced Invitation to Negotiate (ITN) stage. DFP contends that the project offers a value-for-money solution to urgent accommodation problems within the NICS office estate and argues that the PFI contract will be sufficiently flexible to accommodate future dispersal on a significant scale. Nonetheless, concerns remain, particularly amongst political parties and the unions, over the risks associated with a project of this scale and importance.

5. These concerns were reflected in a report by the Committee on the Programme for Government, which was published on 15 January 2007. The report's conclusions and recommendations were agreed by the four political parties on the Committee, now represented on the Executive, and were based on evidence from DFP, the Northern Ireland Public Service Alliance (NIPSA) and others (Appendix 4).[2]

6. The public consultation on the guiding principles for the location of public sector jobs concluded on 30 April 2007. DFP is presently considering the consultation responses and has provided the Committee with a draft summary of these, which sets out the main issues upon which consensus was reached (Appendix 3).

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1 *Review of Public Administration, Guiding Principles for the Location of Public Sector Jobs in Northern Ireland, DFP Consultation Paper, January 2007. http://www.rpani.gov.uk/*

2 *Committee on the Programme for Government Report on Workplace 2010 and Public Sector Jobs Location, Number 1/06R, 15 January 2007.*

7. The Committee understands that the Minister will bring papers on WP2010 and Location of Public Sector Jobs to the Executive on 19 July. The paper on WP2010 will seek an Executive decision to proceed to the next stage of the procurement process and, depending on the outcome and the scope agreed to, the two current bidders will be invited to submit their Best and Final Offers (BAFO). The paper on the location of public sector jobs will invite the Executive to agree a framework to facilitate future decision-making in this regard.

The Committee's Approach

8. Being mindful that decisions are pending by the Minister and the Executive on both WP2010 and on the Location of Public Sector Jobs, the Committee decided to include both matters in its work programme in the period 6 June to 4 July 2007, and to prepare a report on its initial considerations, which would be issued to the Minister before summer recess on 7 July 2007, and subsequently published. The Minutes of Proceedings relating to the Committee's considerations are included at Appendix 1.

9. As a starting point to informing its deliberations, the Committee was briefed on the findings and recommendations of the Committee on the Programme for Government, in relation to WP2010 and Public Sector Jobs Location. At its meeting on 6 June 2007 the Committee received oral and written briefings from DFP (Appendices 2 and 3). For the meeting on 13 June 2007, Assembly Research was commissioned to prepare a paper on WP2010, covering areas where the Committee would focus its attention, including lessons and best practice approach towards PFIs, as identified from the work of the NI Audit Office and the National Audit Office amongst others (Appendix 4).

10. Oral and written evidence was also received from the NI Audit Office on 20 June 2007, which focused on best practice issues and lessons to be learned in relation to PFI projects (Appendices 2 and 3). The Committee also heard evidence from the NI Statistics and Research Agency (NISRA), which had published a report on its 'health check review' of the WP2010 pilot project at Clare House.[3] The Official Reports of the oral evidence sessions are provided at Appendix 2.

11. At its meeting on 27 June 2007 the Committee considered written submissions from the National Audit Office, the NI Court Service, on its experience of the Laganside Courts PFI project, and further written evidence from the NI Audit Office (Appendix 3).

12. In addition to the written and oral evidence provided directly, the Committee has been able to draw on a range of published sources in respect of both WP2010 and the Location of Public Sector Jobs. In particular, in the case of WP2010, the Committee has been able to draw on the evidence and findings from the Inquiry which its predecessor committee undertook into Public Private Partnerships in 2001.[4]

13. The 'Consideration of Evidence' section of the report is divided into two separate sub-sections, one covering the Committee's deliberations on WP2010 and the other covering the Location of Public Sector Jobs. This section contains a number of key conclusions and recommendations in addition to a range of supplementary findings and observations. The recommendations on WP2010 are designed to establish necessary safeguards and assurances before the Minister and the Executive make final decisions on the project. The recommendations on the Location of Public Sector Jobs aim to encourage progress on this front, particularly in terms of maximising and realising the potential economic and social benefits of an affirmative dispersal policy.

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3 Clare House Pathfinder for Workplace 2010, 'health check review' report, NISRA, March 2007.

4 Report on the Inquiry into the use of Public Private Partnerships, Report 7/00 to the Northern Ireland Assembly from the Committee for Finance and Personnel, 26 June 2001.

Consideration of Evidence

Workplace 2010

Objectives and Scope

14. The strategic, tactical, political and operational objectives of WP2010 were set out in the 'Invitation to Negotiate' documentation, which was issued to bidders in June 2006. These objectives are detailed in the table below.[5]

Strategic Objectives	• Enable the NICS to transform the way it delivers public services; • Provide accommodation in which staff are proud to work; and • Safeguard funding for priority front line services.

Tactical Objectives	• Address maintenance backlog within NICS estate and preserve existing investment;
	• Deliver a smaller and more efficient portfolio of properties;
	• Provide flexible workspace where:
	  • Office space is allocated by business need;
	  • The configuration is predominantly open plan; and
	  • The environment is attractive and stimulating;
	• Deliver quality Facilities Management (FM) services that properly support the new working environment; and
	• Clearly demonstrate continuing value for money.

Political Objectives	• Contribute to a real and lasting step change in the reform of Northern Ireland's public service infrastructure; • Contribute to local economic growth; • Provide the flexibility to respond to political commitments on the location of civil service jobs; and • Contribute positively to political commitments to advance sustainability in Northern Ireland.
Operational Objectives	• Enable NICS to focus on the delivery of core public services; • Enable NICS to develop a long term innovative relationship with a PSP who shares NICS values and commitment to the delivery of value for money public services; • Bring forward visible public sector commitment to public policy; and • Enable transparency of property and services costs to incentivise efficiency in space utilisation

15. In its briefings to the Committee, the Department set out the background to WP2010, and in particular the findings from the studies which supported the Strategic Development Plan for the civil service office estate in April 2004. The thrust of the findings was that:

- much of the estate was in a poor state of repair;
- lack of funding meant that there was a significant backlog of outstanding maintenance;
- the estate was poorly utilised and inflexible; and
- the estate in its current state could not support modern and efficient delivery of services.

16. **The Committee acknowledges the context in which WP2010 has been initiated and developed and fully supports the strategic objectives of the programme which aim to:**

5 *Extract from Workplace 2010, Invitation To Negotiate, Volume 1 – Instructions to Bidders.*

- **enable the NICS to transform the way it delivers public services, in terms of efficiency and effectiveness;**
- **provide accommodation in which staff are proud to work; and**
- **safeguard funding for priority front line services.**

The Committee also supports the more immediate objectives of addressing the backlog of maintenance within the NICS estate, of preserving existing investment and of improving the working environment for staff generally. The political objectives of contributing to local economic growth and of providing the flexibility to respond to political commitments on the location of civil service jobs are also to be particularly welcomed.

17. DFP has provided the Committee with details of the properties to be included in WP2010 in addition to a list of properties which may be brought into the project at a later date. The Committee also obtained from the Department information on the current occupancy levels (totaling 17,759 employees) and capacity of the WP2010 properties (Appendix 3). As yet, the Committee is unclear as to the rationale behind both the selection and the categorisation of WP2010 properties. It questions, for example, why particular properties, which have undergone renovation recently, at a cost to the public purse, should be earmarked for transfer to the private sector at this stage. Moreover, the Committee would query the reasons why the maintenance backlog within the NICS estate has developed. The Committee will wish to pursue these issues with the Department in greater detail.

Clare House Pilot Project

18. To inform its deliberations on the impact of WP2010 on working practices, the Committee examined the findings from the 'health check review' of the second pathfinder project for WP2010 at Clare House, a modern workplace situated at Holywood Exchange. Personnel from Central Procurement Directorate, Delivery and Innovation Division and the Strategic Investment Board relocated to Clare House during November/December 2006 and the 'health check review' was carried out by NISRA in March 2007. Its purpose was to identify any early teething problems and management issues for resolution ahead of a more robust post-occupancy evaluation, which will be undertaken in September and reported on in October 2007.

19. In addition to considering the published report on the 'health check review' the Committee took oral evidence from NISRA on 20 June 2007.[6] The Committee noted that the review included some positive findings, including reports by staff that the new accommodation had resulted in improved interaction, communication and teamworking. On the negative side, however, staff had raised concerns about a range of issues, including noise, disruption/distraction, and lack of privacy/confidentiality in the open-plan environment. In particular, the Committee noted that the staff had given Clare House a rating of only 3.91 out of 9 on the question of how well the new workplace helped them to do their jobs effectively. The Committee accepted, however, that this rating could have been affected by the significant IT problems which staff had encountered and which had overshadowed the review.

20. The Committee noted that the 'health check review' made the following key recommendations for WP2010:

- review and refine the processes to ensure projects are ready before occupation of staff – set realistic timeframes and build in contingencies to minimise disruption. In particular, allow for robust testing of new technologies;
- ensure departmental collaboration in undertaking an existing IT audit, and develop the most appropriate and innovative specification for future needs;
- explore possibilities for modifications to the Clare House layout which could alleviate some of the reported noise and distraction issues; and

6 *Clare House Pathfinder for Workplace 2010, 'health check review' report, NISRA, March 2007.*

- progress planning of formal post evaluation, establishing suitable performance measures.

The Committee will wish to monitor DFP's response to the 'health check review' findings and to the above recommendations. In addition, the Committee intends to visit Clare House in the autumn to see the accommodation at first hand.

21. **The Committee has concerns with some of the findings from the initial 'health check review' of the pathfinder project for WP2010 at Clare House and considers that the Department can learn valuable lessons from this exercise. In particular, there will be a need to ensure that in all future relocations under WP2010, provision is made for the proper introduction and testing of IT equipment, thereby avoiding disruption to staff and to the provision of public services. The Committee awaits with interest the outcome of the fuller post-occupancy evaluation in September 2007, as this should provide a clearer assessment of the merits and implications of moving to an open-plan office environment. Also, in terms of future accommodation provision, the Committee expects that, in the consideration of the WP2010 accommodation options, equal office accommodation standards will apply**.

Procurement Options, Value for Money and Affordability

22. The Department provided the Committee with summary details of the full costings for the range of procurement options, which were considered at the Outline Business Case (OBC) stage (Appendix 3). In its assessment of the options, WP2010 has followed the approach, taken in other projects of this type, of demonstrating value for money by making a comparison between PFI options and a public sector comparator (PSC). The information provided by DFP indicates that the PSC/ 'Traditional Procurement Route' has the highest net present cost compared to all the other identified options, including 'Total Property PFI' and 'Mixed Procurement'. This type of comparative assessment of net present cost is a major determining factor in the selection of a preferred procurement option, which in the case of WP2010 was the Total Property PFI route.

23. The Committee notes, however, that its predecessor committee, in the 2001 *Report of the Inquiry into the use of Public Private Partnerships*, highlighted evidence, including from the National Audit Office, which cast grave doubts over the by then established practice of public sector comparators.[7] Also, in its evidence to this Committee, the NI Audit Office has highlighted concerns over weaknesses in the use of public sector comparators, which was highlighted by the Westminster Public Accounts Committee (PAC), in its 28th report 2002-03, entitled *Delivering better value for money from the Private Finance Initiative*. The PAC report points to the considerable debate over the reliability, accuracy and relevance of public sector comparators. It states:

'To justify the PFI option, departments have relied too heavily on public sector comparators. These have often been used incorrectly as a pass or fail test; have been given a spurious precision which is not justified by the uncertainties involved in their calculation; or have been manipulated to get the desired result. Before the PFI route is chosen departments need to examine all realistic alternatives and make a proper value for money assessment of the available choices'.

In this regard, the Committee believes that, in examining the PFI option for WP2010, consideration should also be given to the scope for retaining more of the properties in public ownership.

24. The PAC report also states that 'there are likely to be qualitative and non-financial differences between the options that cannot simply be subsumed in a difference in forecast cost' and concludes that 'decisions on PFI deals need to be based on a realistic, systematic and comprehensive analysis of benefits and risks as well as costs. A robust public sector comparator should be just one of the factors in the assessment'. In a subsequent report on the London Underground Public Private Partnerships (PPPs), PAC again highlighted the point that public sector comparators should not be used as conclusive evidence of the value for

7 *Report on the Inquiry into the use of Public Private Partnerships, Report 7/00 to the Northern Ireland Assembly from the Committee for Finance and Personnel, 26 June 2001.*

money of PPP/PFI. The Committee is aware that DFP has noted this PAC conclusion as an issue to be addressed in the Final Business Case for WP2010 (Appendix 3).

25. Whilst a PFI deal is presently being pursued in respect of WP2010, the Committee would seek assurance that the Department will follow the recommendation in the aforementioned PAC report which calls for the appraisal of the value for money of the alternative options to continue at each stage of the procurement, including during negotiations with bidders, to maintain pressure on price, and particularly before contract signature.

26. Given the proposed scale and duration of WP2010 the stakes are very high and the Committee believes that much hinges on the robustness and reliability of the Final Business Case and on the detail of the final contract taking account of Audit Office best practice in PFI procurement. **The Committee, therefore, calls upon the Department, in finalising the business case, to give due regard to the concerns around the use of public sector comparators and to reassess the procurement options in broad and strategic terms, ensuring that the final value-for-money appraisal takes account of the indirect and long-term, as well as the direct and short-term benefits, risks, uncertainties and costs.**

27. WP2010 comes at a time of significant flux and transition within the wider public sector in NI and in a context of increased pressure on public expenditure. The Committee is conscious of the range of reform initiatives ongoing, not least of which is the Review of Public Administration, which create uncertainties in respect of future NICS workforce requirements and demand for office accommodation. If the PFI route is ultimately taken it will transfer the bulk of NICS accommodation to a PSP and commit the Department and the wider Executive to a long-term contract (which the Committee assumes will be 25 years maximum). This commitment would effectively double the present PFI debt to be repaid by the devolved Administration, from the present £1.5 billion liability, and in circumstances in which the Executive will require maximum financial flexibility. **The Committee therefore recommends that the final assessment of the procurement options for WP2010 should include careful consideration of the full range of qualitative, as well as quantitative, factors. This will account for potential changes and uncertainties, including, for example, the Executive's control and flexibility over future decisions on government accommodation and wider public expenditure and administration matters.** The Committee is aware that DFP's guide to Treasury's 'Green Book' on economic appraisal highlights the importance of giving 'due weight to non-financial considerations' and the Committee believes that this is particularly relevant in respect of WP2010.[8]

28. The Committee considers that long-term affordability needs to be firmly established and made transparent in major procurement exercises such as WP2010, and this is particularly the case with 'buy now, pay later' PFI projects. The NI Audit Office has emphasised that the long-term, as well as the short-term, affordability needs must be assessed from the outset. PFI deals can be especially attractive in terms of short-term affordability. In its 28th report 2002-03, the Westminster PAC concluded that:

'The attractiveness of not having to find the money up front to meet the initial capital costs, together with a perception that the PFI is the favoured option, creates a strong incentive for departments to present their PFI deals as the preferred choice simply to get them to proceed. Departments may also be under pressure to choose the PFI option so as to keep debt off the public sector balance sheet'.

29. The Committee recognises that PFI projects should only be pursued where they deliver value for money. However, they must also be affordable. The Committee is aware that, in assessing the affordability of a project, it is not sufficient to merely estimate unitary charges and the cash impact on budgets. Rather, there is a requirement to produce a Budget Statement (which identifies the impact on capital and resource Departmental Expenditure Limits (DEL)), a Cash Flow Statement and a Funding Statement in full detail for each year of the project. Furthermore, there is an onus on the WP2010 project team to confirm that the affordability analysis, and impact on budgets, is accepted by the Department.

8 *The Northern Ireland Practical Guide to the Green Book: DFP's Guide to the Appraisal, Evaluation, Approval and Management of Policies, Programmes and Projects. 2003, pp. 160 - 168*

30. The Committee also understands that balance sheet treatment has a major impact on affordability. However, since it is unclear whether the assets in WP2010 will be on or off balance sheet, and the impact that this may have on affordability, the Committee cannot, on the basis of the information presented to it, be certain that the project is affordable either in the short or long term. The Committee will, therefore, wish to receive assurances on this issue as the position becomes clearer.

31. Similarly, the transfer of surplus assets from the public sector to the private sector in a PFI contract, such as that being proposed for WP2010, can also impact on the affordability assessment of the deal. In its briefing paper to the Committee, the Department stated that its objective is to 'optimise the capital payment in terms of the valuation of the estate whilst ensuring that the ongoing unitary charge is broadly within the existing budgetary baselines'. During oral evidence Departmental officials explained that the funding of the ongoing unitary charge could be met largely from within existing resources but indicated that there are some issues around this. The Committee recognises that the process of negotiation is ongoing and that the final figure for the upfront capital payment for the transferred assets will not be settled until the conclusion of negotiations. In its evidence to the Committee on the Programme for Government, DFP referred to a figure of 'about £250m' as the likely value of the upfront capital payment. However, the Department was less precise on its estimate in the briefings provided to this Committee.

32. The Committee notes from the evidence that if the public sector opts not to receive the full capital value of the asset on transfer, this should result in a lower unitary charge to be paid over the life of a PFI contract. This may be appealing in the context of increased pressure on public expenditure and a tight budgetary threshold. The risk, however, is that in circumstances where the PSP ceases to operate at a later point in the contract the public sector can lose out. **The Committee considers that, in terms of WP2010, there is a very high risk associated with accepting an up-front capital receipt which is substantially lower than the full market value of the properties. There is therefore a need to ensure that, should the Department pursue such an approach, it fully addresses this risk in the termination clauses of the contract.**

33. **Given the volatility of the property market and taking into account the views expressed by the NI Audit Office, the Committee considers it to be a minimum requirement for the WP2010 project team to obtain accurate and up-to-date valuations for the transferred assets. The Committee recommends that the properties to be included in WP2010 should be valued by an independent commercial valuer in addition to the public sector valuer, and that these valuations should be updated before the conclusion of negotiations. Furthermore, the WP2010 project team should be able to demonstrate that both the upfront capital payment and the remaining net value of the transferred assets are clearly reflected in the up-to-date valuation in the financial model**.

34. **Going forward, the Committee calls for transparency in the establishment of the affordability model and the efficacy of financing arrangements of the Total Property PFI option. In addition, the Committee believes that there should be greater transparency in relation to the long-term commitments arising from PFI deals in NI and in their impact on future budgetary flexibility and affordability. In this respect, the Committee believes that the affordability of the Total Property PFI option proposed for WP2010 should not be considered in isolation, but must also be considered in terms of its impact on the collective commitments arising from PFI deals and indeed commitments arising from other long-term borrowings**. The Committee notes that the NI Audit Office has made recommendations for improving transparency on future PFI and Reinvestment and Reform Initiative borrowing commitments.[9]

Committee on the Programme for Government Recommendations

35. The Committee on the Programme for Government reflected on a wide range of issues within its report. It had a general concern about 'doubling the debt' as a result of selling off parts of the government office

9 *Reinvestment and Reform: Improving Northern Ireland's Public Infrastructure, NI Audit Office Report, HC 79, Session 2006-07, 7 December 2006*

estate, simply to secure an up front, one-off payment to bolster public spending. It also raised the issue of the economic impact on those local businesses presently providing services to government offices and who might be displaced as a result of the award of the WP2010 contract.

36. The Committee called for the WP2010 contract to include provisions for:

- the full realisation of benefits to the taxpayer, such as profit-sharing and claw-back;
- premiums and surcharges to the unitary charges to be tightly controlled;
- no compulsory transfer of public sector staff to the private sector;
- the accurate valuation of the assets; and
- to ensure that the contract did not act as a constraint on any future policy on public sector jobs location that an incoming Executive may wish to pursue.

37. In its written briefing on WP2010 to this Committee, the Department alluded to the concerns raised by the Committee on the Programme for Government and confirmed its commitment to addressing these issues positively in the final contract. This Committee welcomes the commitment given by the Department in this regard.

PFI – Lessons and Best Practice

38. WP2010 is presently pursuing a Total Property PFI procurement option, based on the recommendations from the OBC in 2005. In its evidence to the Committee, DFP officials explained that the OBC concluded that the Total Property PFI option demonstrated value for money as it was some £200m cheaper than a traditional procurement.

39. The Committee recognises that PFI procurement solutions are being used increasingly by the public sector, particularly in the UK. In this regard the Committee has been able to draw on the evidence gathered during its predecessor committee's *Inquiry into the use of Public Private Partnerships*. The Committee notes that its predecessor concluded that, whilst public finance is to be preferred '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', in the context of limited public funding, PFI 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 it is used.[10]

40. As part of its initial scrutiny of WP2010, the Committee sought up-to-date evidence on best practice approaches to PFI, including information on the lessons, potential pitfalls and warning signs based on the experience of those responsible for evaluating the conduct of PFI procurement and subsequent contract management of other projects. The Committee considered that evidence on these issues would help to identify areas where assurances should be sought before final decisions are made on WP2010.

41. In this regard, the Committee has received substantive oral and written evidence from the NI Audit Office together with additional written evidence from the National Audit Office and from the NI Court Service. An analysis of this evidence highlights a range of key issues regarding contract provisions and the subsequent management of PFI contracts, upon which the Committee will wish to receive assurance should it be established that the PFI route is affordable and represents the best value for money option. These are outlined below.

42. The need for flexibility within the contract provisions, specifically with respect to public sector jobs location, was one of the main themes to emerge from the evidence and the Committee sees this as being vitally important in relation to WP2010, given the level of uncertainty and changing circumstances. As detailed above, a stated political objective of WP2010 is to 'provide the flexibility to respond to political commitments on the location of civil service jobs'. Both this Committee and the Committee on the

10 *Report on the Inquiry into the use of Public Private Partnerships, Report 7/00 to the Northern Ireland Assembly from the Committee for Finance and Personnel, 26 June 2001. Volume 1, Page 5.*

Programme for Government have emphasised the importance of flexibility in this area. In this regard, the Committee notes that this is an area which will be examined in any future audit of WP2010 by the NI Audit Office.

43. The Committee considers that public sector jobs location and, in particular, the potential for dispersal, is only one of a range of future uncertainties affecting WP2010. Whilst the Laganside Courts PFI project was on a much smaller scale compared to WP2010, the Court Service has also stressed the need for flexibility by explaining that 'the possibility exists that over a 25 year period there might be a need to vary the services provided significantly in response to changing business needs. The change control mechanism should be flexible and responsive enough to deal with such major alterations efficiently and effectively'. The Committee also notes the finding in the Westminster PAC report on *Managing the Relationship in PFI Projects* (42nd Report, Session 2001-02) that 55% of the public authorities surveyed had already used change procedures to update their contracts. The Committee considers that it is critical that this flexibility can be achieved while maintaining commitment to affordability and value for money.

44. Linked to the issue of flexibility is the requirement for clarity on end-of-contract arrangements. This is of particular concern to the Committee, including the need to safeguard against a situation arising in approximately 25 years time where the WP2010 PSP has a monopoly in terms of the accommodation options available to NICS. The evidence from the NI Audit Office pointed to the need for absolute clarity on the end-of-contract arrangements before the negotiations end and well before contract signature. This should cover, for example, the conditions dealing with termination and how the assets would be valued and on what, if any, basis they would transfer back to NICS. There would also be a need to stimulate competition in the market well in advance of the contract's expiry date. In proffering this advice, however, the NI Audit Office noted that there is little in the way of practical models on which to forecast the end-of-contract scenario because few, if any, PFI contracts have reached their natural end. The view of the Committee is that the risk and uncertainty around the post-contract situation is all the higher given the scale of WP2010. Thus, the Committee will wish to receive assurances that these issues will be addressed appropriately in any final contract.

45. A further theme from the evidence to which the Committee also attaches considerable importance is the need to ensure that appropriate and robust clawback mechanisms are built into the contract to ensure that the public sector shares in any future gains that the PSP may make from refinancing or windfall gains, including from sell-on and/or development of the transferred assets. The Committee has not explored the issue in detail because DFP, in response to a recommendation from the Committee on the Programme for Government, has already provided a commitment to address this in the final contract. This Committee, however, expects that the necessary provision in the WP2010 contract would be in line with Office of Government Commerce (OGC) guidance, which envisages that refinancing gains should be shared 50:50 between the private and public sectors in all new PFI deals.

46. Another important theme to emerge from the evidence was the need for appropriate and contractually sound provision in the PFI agreement for subsequent contract management. In its evidence to the Committee, the NI Court Service acknowledged that there were problems initially in the early days of the Laganside Courts PFI project and, although these problems have been largely resolved, the Court Service has identified important lessons. Foremost of these is the need to give careful attention 'during the procurement phase to the establishment of appropriate contract management and governance procedures and ensuring a smooth transition from procurement to construction, and from construction to the operational phase'.

47. The NI Court Service advised that the following issues relating to operational management should be included within the main PFI Agreement, in order to protect the position of the public sector body and help ensure compliance on the part of the PSP:

- stringent methods of abatements to produce and maintain quality service;
- overall performance scores should allow abatement for poor service in specific areas;

- a method should exist to penalise poor service within each service element;
- the contract should not only cover the building of the premises but also contain detailed clauses on the operational terms and conditions;
- categories/priorities of faults and resolution times should reflect the impact on business;
- categories/priorities of faults and resolution times should be agreed before signature of contract;
- the contract should state that authority/customer has final say under what category/priority a fault is raised with the helpdesk;
- if security of the premises is the responsibility of the FM Service Provider then vandalism must be their risk. This should be clearly stated in the contract;
- all utility charges and methods for dealing with such charges should be clearly defined in the contract;
- where changes are required to the original design during the build ensure that a stringent change control system is in place to clearly document the process;
- no change work should be carried out until the change and costs are agreed and signed off by both parties;
- any additional costs should include FM and lifecycle costs;
- the issue of responsibility for capital purchases should be clearly defined;
- the contract should contain specific references to the number of staff being provided by the FM service provider under the contract and what provisions will be made in respect of cover for absences;
- the contract should contain standards to which each member of the FM service provider's staff will be trained to carry out their individual roles;
- staffing structure of FM Provider should be included in the Agreement together with clearly defined job descriptions.

48. In welcoming this first-hand advice from the NI Court Service, the Committee also notes the conclusion of the National Audit Office that even when the correct contract is in place, departments may fail to realise the full potential benefits of projects if the contracts are not managed effectively. The importance of contract management was emphasised in the Assembly Research paper, which highlighted the finding, made in a Westminster PAC report, that 23% of procuring authorities surveyed in 2002 considered that there had been deterioration in the value for money achieved by their PFI projects, since contract award.

49. In evidence provided to the *Inquiry into the use of Public Private Partnerships* by the Committee's predecessor, the National Audit Office identified the following key elements for successful management of PFI contracts, which complement the Court Service's suggested areas to be covered in the contract:

- assignment of adequate resources and expertise for managing the contract (if this is unavailable in-house it can be provided by external consultants);
- partnership working between the procuring authority and its private sector partner;
- proper management of changes in the procuring authority's requirements over the lifetime of the contract;
- recognition of the ongoing importance of proper risk management by the authority;
- monitoring of the PSP's performance and adjustments to payments to the partner accordingly;
- benchmarking of the PSP's performance in terms of cost and quality;

- proper and timely management of the procuring authority's eventual exit from the contract and, if appropriate, of the appointment of a successor supplier.[11]

50. The Committee noted that the importance of project management skills and expertise was also highlighted by the NI Court Service who explained that 'the importance of having skilled and experienced resources in-house, and the associated cost, to manage the external provider should not be under-estimated. Payment mechanisms can be complex and specific PFI training and development of contract management skills would be an advantage'. During the oral evidence provided by the NI Audit Office, the Committee was apprised of good-practice guidance and training on PFI contract management, which has been developed by the Department of Treasury and Finance in Victoria, Australia in conjunction with universities in Melbourne. The Committee considers that DFP should investigate this example of international good practice, with a view to applying lessons in the context of WP2010.

51. Related to the importance of successful contract management, the Committee noted the conclusion by the NI Audit Office that it is only as a project progresses and the outworking of the performance of a contract becomes clear that it is possible to make a full judgement on value for money. In this regard, the Committee believes that an external audit should be undertaken once projects have been operational for a sufficient period of time to determine the extent to which projected performance and value-for-money targets are being achieved. This value-for-money audit should not preclude an earlier audit of procurement performance.

52. Other themes which emerged from the evidence include: the importance of applying sanctions when the performance of the PSP falls below agreed standards; the need to have in place up-to-date contingency plans to provide a fall-back position for situations such as when the PSP fails to deliver on performance or gets into financial difficulties (this has been experienced in big 'heavily geared' PFI deals in GB which are financed mainly by loans rather than equity); and the need to keep consultancy costs to an acceptable level.

53. The Committee has received information from the Department which indicates that officials have been actively considering the lessons from a number of PFI experiences in GB, which were highlighted in reports by the Westminster PAC (Appendix 3). This proactive approach by the Department is to be welcomed and the Committee would encourage more detailed and exhaustive work in this regard. However, **the Committee recommends that if the WP2010 project is to proceed on a PFI basis then the Department should ensure that the full range of applicable best-practice approaches and lessons identified from existing PFI experience, including those outlined in this report, are applied in respect of the Final Business Case, the final contract and contract management arrangements**.

Final Business Case and Final Contract

54. The Committee regards the integrity and reliability of the Final Business Case and, in the event of a PFI solution, the final contract as being of pivotal importance in informing decisions on the direction of WP2010 and in determining its ultimate success and value for money. The Committee is aware that WP2010 is following formal project management processes and is already subject to certain forms of independent review in this regard.

55. On the latter point, WP2010 is covered by the OGC 'Gateway Review Process' and OGC has referred the Committee to detailed information on the five review stages during the life cycle of a project.[12] These include three reviews before contract award ('Business Justification', 'Delivery Strategy', and 'Investment Decision') and two looking at service implementation and confirmation of the operational benefits ('Readiness for Service' and 'Operational Review and Benefits Realisation'). Additional OGC Gateway reviews can be undertaken, if required, including in respect of the decision points between Gateway reviews 3 and 4 for construction projects.

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11 *Report on the Inquiry into the use of Public Private Partnerships, Report 7/00 to the Northern Ireland Assembly from the Committee for Finance and Personnel, 26 June 2001, Volume 2, Page 192.*

12 *www.ogc.gov.uk/what_is_ogc_gateway_review.asp*

56. It is the Committee's understanding that the Gateway Review Process provides a 'peer review' in which independent practitioners make an external challenge to the robustness of the plans, processes and methodology adopted and ensure that proper project management principles are followed. The Committee also understands that the OGC Gateway Review is conducted on a confidential basis for the Senior Responsible Officer (SRO) and ownership of the review report and recommendations rests with the SRO.

57. Additionally, the Committee is aware that an element of interdependent review exists within the WP2010 project management structure. This takes the form of an Independent Compliance Committee, which is a sub-committee of the Programme Steering Committee, and comprises four members independent of WP2010. This compliance committee is responsible for providing assurance specifically on the procurement process, from the ITN to the BAFO stage, particularly regarding the fairness and equitable treatment of bidders (Appendix 3).

58. Whilst acknowledging the valuable functions performed by both the Independent Compliance Committee and the Gateway Review, the Committee is unclear as to the extent to which WP2010 is subject to an independent and external review mechanism which examines in detail the assumptions, interpretations, assessments and ultimately the conclusions and recommendations which are made during the procurement process, and especially regarding the Final Business Case.

59. **Given the scale, complexity and importance of WP2010 and the range of safeguards required, the Committee seeks firm assurances from the Department on the following**:

- **that the Final Business Case will be independently and objectively assessed, not only in terms of the process and methodology followed in its preparation but, more particularly, in terms of the underlying assumptions, calculations, analyses, conclusions and recommendations contained therein;**
- **that this assessment will cover, amongst other things, the robustness of the Public Sector Comparator, the qualitative and quantitative evaluation criteria and the application of these against the different procurement options, as well as the comparisons of the costs, benefits, risks, uncertainties, optimism bias and the sensitivity and the affordability analyses associated with the different procurement options; and**
- **that, in the event of PFI being confirmed as the best value for money and most affordable solution, the final contract will provide for all necessary safeguards, including those identified in this report.**

The Committee regards these measures as being necessary and valuable in providing the optimal level of independent and objective assurance to the Minister, and ultimately to the Executive and the wider Assembly.

60. In calling for these additional assurances, the Committee is conscious of the need to avoid undue delay in the procurement process, as this would set back the realisation of the WP2010 objectives and, in the event that the PFI route is confirmed, could inconvenience the prospective PSP. In regard to this latter point, in a recent report provided to the Committee, the Confederation of British Industry (CBI) has highlighted the need to further reduce delays in the PFI procurement process in order to avoid putting off private sector companies from bidding for projects.[13] The Committee recognises that fewer bidders for PFI projects means less competition, with a resultant loss in value for money for the public sector. In view of this, **the Committee recommends that any additional assessment or work necessary to provide the required assurances should be undertaken promptly and immediately once the Final Business Case and final contract are available.**

13 *Building on Success – The Way Forward for PFI, CBI, June 2007, pages 27-28.*

Location of Public Sector Jobs

A Preliminary View

61. As alluded to earlier, the Committee has had only a limited opportunity to date to take evidence on this matter. The Committee received from DFP a written and oral briefing together with a report on the public consultation on the *Guiding Principles for the Location of Public Sector Jobs Location in Northern Ireland*. Whilst the Committee has also been able to draw on the evidence in the report by the Committee on the Programme for Government and on other published literature, it considers that this is an issue which will require further examination, based on a wider pool of evidence. The observations, conclusions and recommendations detailed below should, therefore, be regarded in terms of the Committee's initial considerations.

Committee on the Programme for Government Recommendations

62. In its report on WP2010 and Public Sector Jobs Location, the Committee on the Programme for Government concluded:

'The key issue in relation to public sector jobs location should be the further development and implementation of a policy of dispersal which ensured the capacity of the public sector to deliver a range of services efficiently and effectively, through affirmative and sustainable approaches, and in a way which would bring about social, economic and environmental and equality benefits throughout Northern Ireland'.[14]

63. This Committee concurs with this conclusion and **recommends that the Department and the wider Executive implement the recommendation by the Committee on the Programme for Government, to develop an affirmative policy for the dispersal of public sector jobs, which ensures the capacity of the public sector to deliver a range of services efficiently and effectively, through a sustainable approach, and implemented 'for the benefit of the whole of NI, as a matter of priority'**. In making this recommendation the Committee on the Programme for Government advocated that such a policy should 'take account of existing strategies for equality, rural development, sustainable development and targeting social need', whilst also being subject to careful consideration of the costs. This Committee concurs with this position and believes that the affirmative dispersal policy should also be based on the guiding principles discussed below.

64. The Committee has considered the statistics on public sector jobs location and notes the following facts, which are based on an analysis of figures for the areas outside the Belfast District Council Area (DCA):

- 42% of NICS posts are located outside the Belfast DCA;
- 85% of NICS staff reside outside the Belfast DCA;
- 84% of the NI working age population reside outside the Belfast DCA.[15]

The Committee does not believe that these statistics represent evidence of the existence of a strategic distribution of NICS jobs across NI. The Committee is also aware that there is a wide variation in the distribution of public sector jobs among travel-to-work areas, district council areas and constituencies in NI.[16] **In echoing the call for an affirmative policy on dispersal, the Committee contends that this policy should not be framed simply in terms of the demographics of public sector jobs location or the need to transfer jobs outside the Belfast area. Rather, a strategic approach is required – in terms of the locations selected, the number, types and grades of jobs, and the functions or business units to be relocated – to maximise the benefits throughout NI. The Committee further believes**

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14 *Committee on the Programme for Government Report on Workplace 2010 and Public Sector Jobs Location, Number 1/06R, 15 January 2007, Page 9.*

15 *Note: The Belfast DCA includes the Stormont ward. Working age population figures are NISRA estimates for 2005. Sources: Committee on the Programme for Government Report on Workplace and Public Sector Jobs Location; NI Census of Employment, September 2003, District Council Areas by Ward, NISRA, 16 February 2005.*

16 *See Appendix 4: Written Answer from DFP Minister to Assembly Question from Declan O'Loan MLA (Ref. AQW 826/07).*

that the Department, in categorising the location of offices within the public sector, should accurately reflect geographic reality.

65. The report by the Committee on the Programme for Government demonstrated a level of consensus on the issue of dispersal amongst the four political parties now represented on the Executive. This consensus provides the Executive with a firm basis for progressing an affirmative policy on public sector jobs dispersal for the benefit of the whole of NI.

Dispersal – Scope and Constraints

66. In addition to a conducive political context, the Committee considers that present circumstances in NI offer a number of other opportunities for dispersal. A dispersal initiative would support a range of existing cross-cutting government policies. Not least amongst these is the Regional Development Strategy, 2001, which includes the objective of promoting a balanced spread of economic development across NI, focussed on the major regional cities (i.e. Belfast Metropolitan Area and Derry/Londonderry) and main hubs (including Antrim, Ballymena, Larne, Coleraine, Limavady, Strabane, Omagh, Cookstown, Dungannon, Eniskillen, Armagh, Craigavon, Banbridge, Newry, Downpatrick and Newtownards) as the main centres for employment and services. The chapter of the Strategy which considers Spatial Development, concludes that even on a modest scale dispersal 'could bring significant local economic benefits, support town centre revitalisation, underpin and encourage private sector investment'. It goes on to state that:

'An appropriate level of decentralised public and private sector investment would have environmental and economic benefits, reducing commuting to the Belfast Metropolitan Area and relieving congestion as well as contributing to the equitable sharing of regional assets.'[17]

67. The Committee considers that an affirmative dispersal policy would also complement and advance a range of other existing cross-cutting policies, including New TSN, Rural Proofing, the Anti Poverty Strategy, and the forthcoming Regional Economic Strategy.

68. The RPA also presents obvious opportunities over the next few years for decisions to be taken on the strategic and co-ordinated location of a wide range of public service providers. The RPA covers over 150 bodies, including 26 district councils, the Health and Social Services Boards and Trusts, the five Education and Library Boards and about 100 other public bodies. It has been acknowledged that the appropriate relocation of relevant staff will be essential to the successful delivery of the benefits accruing from the RPA. Also, in implementing the RPA it is envisaged that a number of local government buildings may become available and the Committee considers that this, in itself, presents an opportunity for some relocation of public sector jobs out of the greater Belfast area.

69. The Committee recognises that potential constraints exist to dispersal, not least of which is WP2010. In its evidence to the Committee, DFP contends that the project offers a value-for-money solution to urgent accommodation problems within the NICS office estate and argues that the PFI contract will be sufficiently flexible to accommodate future dispersal on a significant scale. Nonetheless, it is indisputable that WP2010 will result both in a rationalisation of the NICS estate, with a further concentration in greater Belfast, and in a cost on subsequent dispersal decisions whereby the PSP will apply a fixed charge (of an amount as yet unknown) on buildings vacated before the expiration of the contract. The Committee remains concerned that WP2010 could significantly reduce the Executive's freedom both to determine the future location of Civil Service jobs and to implement a dispersal policy which would contribute to cross-cutting policies referred to above. **The Committee, therefore, seeks further assurances that the final WP2010 contract and projected costs do not militate against future strategic decisions on the location of public sector jobs**.

17 *The Regional Development Strategy for Northern Ireland, 2001, Page 48 http://www.drdni.gov.uk/index/regional_planning/rp-available_documents.htm*

70. Dispersal is also likely to require significant upfront investment before the realisation of longer-term benefits. Given that the Executive will be working within a very tight budgetary context over the coming years, and will face a range of competing demands for resources, pressure to meet short-term needs could militate against the Executive adopting a strategic approach to public sector jobs location. DFP's present guidance on *Dispersal of Civil Service Jobs*, produced in March 1999, states that 'the possibility of dispersing Civil Service functions should be considered in the context of reviews and/or appraisals in which the location of the work is a significant cost element'. Whilst the Committee acknowledges that cost will be a constraining factor, and agrees that the relative cost of dispersal options will need to be appraised, it believes that the value-for-money considerations should be assessed in broad terms and strategically to take account of the longer-term social, economic and environmental benefits.

71. Careful consideration will have to be given to the optimal approach to dispersal in terms of the size, nature and structure of the work areas to be relocated. For example, the case for relocating specific service functions, such as the new 'shared service centres', against that of moving whole departments. A range of issues will have a bearing on these decisions, such as the need to ensure career progression opportunities within selected locations and the potential for economies of scale and connectivity associated with bringing centres of administration together. In the view of the Committee, there will also be a need to avoid dispersal resulting in a disjointed system of public administration, which would present a further barrier to 'joined up government' and, in turn, would affect service delivery.

72. The Committee recognises that there will be complex human resource considerations associated with dispersal decisions. Some public servants will welcome the reduction in commuting as a result of relocating to workplaces closer to their homes and others will wish to avail of the opportunity to move out of the greater Belfast area. Some staff, however, will not wish to move because of family, career or other reasons. Equality issues are also likely to arise and there will be a need to ensure proper opportunities for career progression, safeguarding staff who choose to relocate against any disadvantage down the line. Prior and appropriate consultation with employees and their representatives will, therefore, be required in advance of decisions on dispersal. In this regard, the Committee notes that, in its evidence to the Committee on the Programme for Government sub-group, NIPSA explained that it would support a policy of dispersal and decentralisation of jobs where this is objectively justified under section 75 of the Northern Ireland Act 1998 and in terms of TSN, rural development and other relevant policies.[18]

73. In recognising the many human resource issues to be addressed, the Committee considers that the relatively confined geographic territory of NI (only 5,463 square miles or 14,148 square kilometres) should present less in the way of 'social barriers' to dispersal as compared to experiences elsewhere, including in RoI, in that public servants who transfer job locations could more readily commute to the new location from their existing homes, if this was their preferred choice.

74. In an Assembly adjournment debate on 12 June 2007, the Minister, whilst emphasising that he was 'not unsympathetic to having more public-sector jobs located outside the greater Belfast area', pointed to the need to bear in mind the importance of the capital city as a key location. The Committee believes that this is a further consideration to address in the development and implementation of an affirmative policy on dispersal.

75. The Committee, therefore, recognises the range and complexity of the issues to be addressed in progressing a dispersal policy. However, the Committee considers that this should not justify further delay. In the view of the Committee, there has been a tardiness in progressing this issue. The Committee noted that the Programme for Government under the previous devolved administration (suspended in 2002) had included a commitment to investigate dispersal but that it has taken five years to reach a point where consideration is taking place on the principles of public sector jobs location.

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18 *Committee on the Programme for Government Report on Workplace 2010 and Public Sector Jobs Location, Number 1/06R, 15 January 2007, Page 153.*

International Experience

76. The Committee notes that our near neighbours have been less hesitant in moving to exploit the benefits of dispersal, as outlined in the Department's consultation paper on the *Guiding Principles for the Location of Public Sector Jobs in Northern Ireland*. In particular the Scottish Executive introduced a relocation policy as long ago as 1999, with the main objectives of providing cost effective delivery solutions and assisting areas with particular social and economic needs. The policy focuses on sharing the benefits of public sector employment with fragile rural communities and areas of economic deprivation.

77. The Scottish Executive's *Relocation Guide*, published in 2005, provides a stage-by-stage methodology for dispersal, including appraisal criteria and requirements for consulting staff and unions.[19] Project teams (including senior management and staff representatives) are set up to identify the optimum locations. A shortlist of locations is agreed and this is followed by a full economic appraisal of the short-listed options. The appraisal assesses overall value for money, taking account of all significant economic, environmental and social impacts. This means that as well as considering the direct impacts such as rental and relocation costs, the appraisal also needs to consider the wider impacts on customers, stakeholders and society as a whole. When the areas for relocation are agreed, support teams assist with the practicalities of implementing the move.

78. The Committee notes that an initial evaluation of the Scottish Executive's dispersal policy in late 2006 indicated that 'relocation is bringing tangible economic benefits to communities across Scotland albeit that it is still too early to realise the full impact of the relocations that have taken place to date'.[20] On the other hand, the Committee is also aware that the Scottish Executive's methodology for relocation was criticised recently by the Scottish Parliament's audit committee for failing to deliver a true dispersal of jobs throughout Scotland.[21] Nonetheless, the Committee believes that the Scottish experience provides a good basis for identifying and applying lessons in the context of NI.

79. Other near-hand experiences of dispersal include the Republic of Ireland (RoI), Wales and England. In the case of the latter, the *Independent Review of Public Sector Relocation* by Sir Michael Lyons in 2004 included an extensive process of identifying suitable posts and organisations for relocation. It distinguished between policy-making units and service providers, with only those posts identified as sufficiently divorced from central policy-making being considered for relocation. The Review also concluded that dispersal should focus on units of sufficient size that could support sustainable career progression for local people. The subsequent dispersal programme involves the relocation of approximately 20,000 posts from London and the south-east into the regions over a seven-year period.[22]

80. **Whilst acknowledging that the conditions in NI, in terms of the location of public sector jobs, will differ from elsewhere, the Committee, nonetheless, calls on the Department to learn the lessons from the international experience of public sector jobs dispersal and apply these, as appropriate, in the NI context**.

Principles and Strategy

81. The recent public consultation led by DFP, which ended in April 2007, proposed the following eight guiding principles for public sector jobs location:

1. Improving service delivery;
2. Taking account of staff interests;
3. Achieving value for money;

19 The Relocation Guide, Scottish Executive, 2005. http://www.scotland.gov.uk/

20 Committee on the Programme for Government Report on Workplace 2010 and Public Sector Jobs Location, Number 1/06R, 15 January 2007, Page 44.

21 http://www.scottishparliament.gov.uk/

22 Sir Michael Lyons, Independent Review of Public Sector Relocation, March 2004.

4. Effective working;
5. Effective asset management;
6. Maximising social and economic benefits;
7. Promoting equality and good relations; and
8. Sustainable development.

82. The Committee understands that the Minister will put a paper on the guiding principles to the Executive in July and that, when finalised, these will inform future relocation/dispersal decisions, including those which will be taken as part of the RPA.

83. The Department provided the Committee with a draft summary of responses to the DFP consultation on the guiding principles (Appendix 3). A total of 39 written replies were received and the Department also held two consultation workshops with interested stakeholders in April 2007. The Committee notes that the consultation attracted a broad spectrum of respondents and workshop attendees. Whilst responses were received from individual political representatives, the Committee notes that the political parties did not make formal responses and hopes that there will be further opportunities for engagement with the parties going forward.

84. The consultation summary highlights the following main areas of consensus:

- The need for a coherent and integrated framework to underpin future decisions on the location of public sector jobs;
- Dispersal as being the key issue;
- The importance of the Regional Development Strategy to the future framework;
- The need for local government representation on the Estates Working Group;
- Support for the principles and agreement on the need for them to be refined;
- The need for a detailed methodology for applying and implementing the principles;
- The need for equality proofing as part of the decision-making process.

The Committee concurs with these points and believes that the Department should now refine and finalise the principles.

85. Whilst acknowledging the importance of each of the principles the Committee places particular emphasis on 'maximising social and economic benefits'. The Committee notes the high level of consensus amongst respondents on the importance of building on the regional hubs identified in the Regional Development Strategy as gateways into the economic development and regeneration of deprived and rural communities. In this regard, **the Committee considers that, whilst the costs of dispersal are important, including the immediate investment requirements and shorter-term value-for-money considerations, the Department should give appropriate weighting to the longer-term strategic gains, including the potential of dispersal as a tool for supporting the development of the regional economic hubs and, thereby, closing the significant regional economic and prosperity gaps within NI**.

86. Included in the social and economic benefits are the gains for business and the environment from relieving the growing traffic congestion in the Belfast Metropolitan Area. In this regard, the Committee notes that, during the adjournment debate in the Assembly on 12 June 2007, the Minister indicated that he was considering the available data on environmental and road congestion issues associated with commuting to work by public-sector workers. The Committee would encourage the Minister to continue to give this matter his attention.

87. The Committee considers that a strategic and co-ordinated approach should be taken to dispersal decisions aimed at maximising the economic and social benefits for all the people of NI. Towards this end, **the Committee recommends that, as a complement to a high-level affirmative policy on dispersal, the**

Department takes the lead in developing a cross-cutting strategy on jobs location, covering NICS, local government and the wider public sector. This strategy should apply best practice, based on experience elsewhere, in providing a methodology for applying the guiding principles and for initiating and implementing individual dispersal projects.

88. **The Committee further recommends that, for the purposes of informing the strategy on jobs location, the Department commissions an independent study on how best to maximise the longer-term economic, social and environmental benefits from an affirmative dispersal policy.**

List of Abbreviations

BAFO	Best and Final Offer
CBI	Confederation of British Industry
DCA	District Council Area
DEL	Departmental Expenditure Limit
DFP	Department of Finance and Personnel
FM	Facilities Management
GB	Great Britain
ITN	Invitation to Negotiate
NAO	National Audit Office
NI	Northern Ireland
NIAO	Northern Ireland Audit Office
NICS	Northern Ireland Civil Service
NIPSA	Northern Ireland Public Service Alliance
NISRA	Northern Ireland Statistics and Research Agency
OBC	Outline Business Case
OGC	Office of Government Commerce
PAC	Public Accounts Committee
PFI	Private Finance Initiative
PPP	Public Private Partnership
PSC	Public Sector Comparator
PSP	Private Sector Partner
RPA	Review of Public Administration
SIB	Strategic Investment Board
SRO	Senior Responsible Officer
TSN	Targeting Social Need
WP2010	Workplace 2010

Appendix 1

Minutes of Proceedings relating to the Report

Wednesday, 06 June 2007
Room 152, Parliament Buildings

Present:	Mervyn Storey MLA (Deputy Chairperson) Roy Beggs MLA Dr Stephen Farry MLA Simon Hamilton MLA Fra McCann MLA Adrian McQuillan MLA Declan O'Loan MLA Dawn Purvis MLA
In Attendance:	Shane McAteer (Assembly Clerk) Vivien Ireland (Assistant Assembly Clerk) Colin Jones (Assistant Assembly Clerk) Paul Woods (Clerical Supervisor) Mary Thompson (Clerical Officer)
Apologies:	Mitchel McLaughlin MLA (Chairperson) Jennifer McCann MLA Peter Weir MLA

The meeting commenced at 10.05am in open session.

6. **Briefing on Workplace 2010 and Public Sector Jobs Location**

Members were briefed on Workplace 2010 and Public Sector Jobs Location by DFP officials, including Chris Thompson, Head of Corporate Services Group, Olive Maybin, Communications Manager and Emma Wilson, Project Manager. The session was recorded by Hansard for publication on the Committee website.

Agreed that the Clerk to the Committee will seek the further information which the DFP officials agreed to provide, including a list of NICS buildings to be kept/sold/potentially sold, number of civil servants to be re-located and the Department's analysis of audit report findings on PFI contracts.

Mervyn Storey, Deputy Chairperson,
Committee for Finance and Personnel.
13 June 2007.

Wednesday, 13 June 2007
Room 152, Parliament Buildings

Present:	Mitchel McLaughlin MLA (Chairperson) Mervyn Storey MLA (Deputy Chairperson) Roy Beggs MLA Dr Stephen Farry MLA Simon Hamilton MLA Fra McCann MLA Jennifer McCann MLA Adrian McQuillan MLA Declan O'Loan MLA Peter Weir MLA
In Attendance:	Alan Patterson (Principal Clerk) Shane McAteer (Assembly Clerk) Vivien Ireland (Assistant Assembly Clerk) Colin Jones (Assistant Assembly Clerk) Paul Woods (Clerical Supervisor) Mary Thompson (Clerical Officer) Dr Peter Gilleece (Assembly Research)
Apologies:	Dawn Purvis MLA

The meeting commenced at 10.01am in open session.

5. **Assembly Research Briefing on Workplace 2010**

Dr Farry joined the meeting at 11.02am.

The Committee was briefed by Assembly Research on its potential approach to scrutinising Workplace 2010.

Agreed: that the Clerk will ask DFP to provide urgently the information requested following the last meeting and to provide further information in time for the next meeting on 20 June.

Agreed: that officials from the Northern Ireland Audit Office should be invited to brief the Committee on their experience of PFI projects and that written submissions should be requested from the National Audit Office and the Office of Government Commerce.

Agreed: that officials from the Northern Ireland Statistics and Research Agency should be invited to the next meeting to brief the Committee on the Health Check Review which they carried out on Clare House.

Agreed: that the views of the Northern Ireland Court Service should be sought on its experiences of managing the Laganside Courts PFI contract.

Michel McLaughlin, Chairperson,
Committee for Finance and Personnel.
20 June 2007.

Wednesday, 20 June 2007
Room 152, Parliament Buildings

Present:	Mitchel McLaughlin MLA (Chairperson) Mervyn Storey MLA (Deputy Chairperson) Roy Beggs MLA Dr Stephen Farry MLA Simon Hamilton MLA Fra McCann MLA Jennifer McCann MLA Adrian McQuillan MLA Declan O'Loan MLA Dawn Purvis MLA Peter Weir MLA
In Attendance:	Alan Patterson (Principal Clerk) Shane McAteer (Assembly Clerk) Vivien Ireland (Assistant Assembly Clerk) Colin Jones (Assistant Assembly Clerk) Paul Woods (Clerical Supervisor) Mary Thompson (Clerical Officer) Dr Jodie Carson (Assembly Research)
Apologies:	None

The meeting commenced at 10.10am in open session.

3. **Matters Arising**

Members noted correspondence issued on behalf of the Committee, including requests for information from the Department of Finance and Personnel (DFP), and invites to National Audit Office, Office of Government Commerce and Northern Ireland Court Service to provide written evidence on Public Finance Initiatives for the Committee's next meeting on 27 June. Members also noted responses received from DFP regarding a number of issues which the Committee had raised regarding Workplace 2010 and on the implementation of the new rating system.

Agreed: that further information will be requested from DFP in relation to Workplace 2010 for next week's meeting.

6. **Evidence from Northern Ireland Statistics and Research Agency on Clare House 'Health Check Review'**

The Committee was briefed on the Clare House 'health check review' report by NISRA officials including Dr John Mallon and Amanda McEwan, Statistician. The session was recorded by Hansard.

Members noted the initial findings of the report and agreed the need to follow up on the next review carried out by NISRA in September, which would provide a fuller evaluation of the pilot project.

Agreed: that a copy of NISRA's next report, due in October, will be requested to facilitate the Committee in undertaking further scrutiny of this issue.

Mr Quillan returned to the meeting 12.30pm.

Ms McCann left the meeting at 12.35pm.

8. **Evidence from Northern Ireland Audit Office on PFI Projects**

Members were briefed on best practice approach to PFI projects, including lessons to be learned from projects to date, by NIAO officials including: Kieran Donnelly, Assistant Auditor General, Financial Audit and Brandon McMaster, Director of Value for Money. The session was recorded by Hansard.

Mr Storey left the meeting at 2.31pm.

Ms McCann returned to the meeting 2.35pm.

Agreed: that the Committee will obtain follow up information from NIAO.

Agreed: that the Committee's initial consideration of Workplace 2010 and the Location of Public Sector Jobs will be presented and published as a Committee report. A first draft report will be prepared for consideration by the Committee at its next meeting on 27 June 2007.

Agreed: that the Committee will also write to the Minister to request that he consider the Committee's report before putting papers on Workplace 2010 and Location of Public Sector Jobs to the Executive. A draft letter to the Minister will be considered by the Committee at its next meeting on 27 June 2007.

Mitchel McLaughlin, Chairperson,
Committee for Finance and Personnel.
27 June 2007.

Wednesday, 27 June 2007
Room 152, Parliament Buildings

Present:	Mervyn Storey MLA (Deputy Chairperson) Roy Beggs MLA Dr Stephen Farry MLA Simon Hamilton MLA Jennifer McCann MLA Adrian McQuillan MLA Declan O'Loan MLA Dawn Purvis MLA Peter Weir MLA
In Attendance:	Shane McAteer (Assembly Clerk) Vivien Ireland (Assistant Assembly Clerk) Colin Jones (Assistant Assembly Clerk) Paul Woods (Clerical Supervisor) Mary Thompson (Clerical Officer)
Apologies:	Fra McCann MLA Mitchel McLaughlin MLA

The meeting commenced at 10.01am in open session. Mr Storey took the Chair.

3. **Matters Arising**

Agreed: that the Committee's deliberations on the Varney Review and its consideration of the first draft of its report on Workplace 2010 and Public Sector Jobs Location would be held in closed session.

Members noted the information requested from DFP arising from the last meeting.

7. **Committee for Finance and Personnel Report on Workplace 2010 and Public Sector Jobs Location**

Members noted the information requested from DFP on the number of civil servants currently located in individual government buildings and on the potential for local firms to become involved in work emanating from the implementation of Workplace 2010.

Agreed: to request further information from DFP on the current staff capacity of individual government buildings; how individual buildings had been categorised and whether this categorisation would be used to measure any subsequent dispersal.

It was also noted that the up-to-date specification of requirements, requested by the Committee would not be available for four weeks but, in the interim, DFP had provided the Invitation to Tender which was available to members in the Committee office.

Members noted responses from the following organisations:

- Office of Government Commerce;

- National Audit Office;
- Northern Ireland Court Service; and
- Northern Ireland Audit Office.

Members considered the first draft of the Committee's Report.

The Chairperson suspended the meeting at 12.25pm.

The meeting resumed at 12.28pm in closed session.

Agreed: that the current draft will be issued electronically to all members following the meeting and that any proposed amendments will be sent to the Clerk by 10.00am on Monday 2 July to allow these to be circulated in advance of the next meeting.

Agreed: that the current draft will be updated to reflect the Committee's considerations and that the second draft will be included in members packs for the next meeting.

The Committee considered a draft letter to the Minister notifying him of the Committee's forthcoming Report and asking that he consider it before putting papers to the Executive in late July on the issues of Workplace 2010 and the location of public sector jobs.

Agreed: that the letter should be issued to the Minister as drafted.

The meeting continued in open session at 12.50pm.

8. **Correspondence to Note**

Members noted the following correspondence:

- CBI Report – *Building on Success, Way Forward for PFI.*

Mervyn Storey, Deputy Chairperson,
Committee for Finance and Personnel.
4 July 2007.

Wednesday, 04 July 2007
Room 152, Parliament Buildings

Unapproved Minutes of Proceedings

Present:	Mitchel McLaughlin MLA (Chairperson) Mervyn Storey MLA (Deputy Chairperson) Roy Beggs MLA Dr Stephen Farry MLA Simon Hamilton MLA Fra McCann MLA Adrian McQuillan MLA Declan O'Loan MLA Peter Weir MLA
In Attendance:	Shane McAteer (Assembly Clerk) Vivien Ireland (Assistant Assembly Clerk) Colin Jones (Assistant Assembly Clerk) Paul Woods (Clerical Supervisor) Mary Thompson (Clerical Officer)
Apologies:	Jennifer McCann MLA Dawn Purvis MLA

The meeting commenced at 10.07am in open session.

The meeting went into closed session at 10.17am.

4. **Consideration of 2nd draft report on Workplace 2010 and Location of Public Sector Jobs**

The Committee undertook a paragraph-by-paragraph consideration of its second draft report as follows:

Introduction

Paragraphs 1 - 2 were agreed.

Paragraph 3 was agreed subject to minor amendment.

Paragraphs 4 - 20 were agreed.

Paragraph 21 was agreed subject to the addition of the following sentence to the end of the paragraph: 'Also in terms of future accommodation provision, the Committee expects that in the consideration of the Workplace 2010 accommodation options, equal office accommodation standards will apply.'

Paragraph 22 was agreed.

Paragraph 23 was agreed subject to the addition of the following sentence to the end of the paragraph: 'In this regard, the Committee believes that, in examining the PFI option for WP2010, consideration should also be given to the scope for retaining more of the properties in public ownership.'

Paragraphs 24 – 28 were agreed.

Paragraphs 29 – 40 were agreed.

Paragraph 41 was agreed subject to minor amendment.

Paragraphs 42 – 45 were agreed.

Paragraph 46 was agreed subject to minor amendment.

Paragraphs 47 – 50 were agreed.

Paragraph 51 was agreed subject to the second sentence being amended to read as follows: 'In this regard, the Committee believes that an external audit should be undertaken once projects have been operational for a sufficient period of time to determine the extent to which projected performance and value-for-money are being achieved.'

Paragraphs 52 – 55 were agreed.

Paragraph 56 was agreed subject to minor amendment.

Paragraphs 57 – 60 were agreed.

Paragraph 61 was agreed subject to minor amendment.

Paragraph 62 was agreed.

Paragraph 63 was agreed subject to the first sentence being amended to read as follows: 'This Committee concurs with this conclusion and **recommends that the Department and the wider Executive implement the recommendation by the Committee on the Programme for Government, to develop an affirmative policy for the dispersal of public sector jobs, which ensures the capacity of the public sector to deliver a range of services efficiently and effectively, through a sustainable approach, and implemented 'for the benefit of the whole of NI, as a matter of priority'**.'

Paragraph 64 – it was agreed that this paragraph would be replaced with the following:

'The Committee has considered the statistics on public sector jobs location and notes the following facts, which are based on an analysis of figures for the areas outside the Belfast District Council Area (DCA):

- 42% of NICS posts are located outside the Belfast DCA;
- 85% of NICS staff reside outside the Belfast DCA;
- 84% of the NI working age population reside outside the Belfast DCA.

The Committee does not believe that these statistics represent evidence of the existence of a strategic distribution of NICS jobs across NI. The Committee is also aware that there is a wide variation in the distribution of public sector jobs among travel-to-work areas, district council areas and constituencies in NI. **In echoing the call for an affirmative policy on dispersal, the Committee contends that this policy should not be framed simply in terms of the demographics of public sector jobs location or the need to transfer jobs outside the Belfast area. Rather, a strategic approach is required – in terms of the locations selected, the number, types and grades of jobs, and the functions or business units to be relocated – to maximise the benefits throughout NI. The Committee further believes that the Department, in categorising the location of offices within the public sector, should accurately reflect geographic reality.'**

Paragraphs 65 – 78 were agreed.

Paragraph 79 was agreed subject to the full title of the Lyons Review being inserted.

Paragraph 80 was agreed subject to the whole of the paragraph being in bold font.

Paragraphs 81 – 88 were agreed.

Agreed: that the key conclusions and recommendations, highlighted in bold text in the 'Consideration of Evidence' section, will be reproduced at the beginning of the report for presentational purposes.

Executive Summary was agreed.

Appendices were agreed subject to the following paper being added to Appendix 4 - AQW 826/07.

Agreed: that the extract of the unapproved minutes of proceedings of today's meeting will be checked by the Chairperson and included in Appendix 1.

Agreed: that the report, as amended, will be the First Report of the Committee for Finance and Personnel to the Assembly.

Mitchel McLaughlin, Chairperson,
Committee for Finance and Personnel.
5 September 2007

Appendix 2

Minutes of Evidence

Wednesday 6 June 2007

Workplace 2010 and Public Sector Jobs Location

Members present for all or part of the proceedings:
Mr Mervyn Storey (Deputy Chairperson)
Mr Roy Beggs
Dr Stephen Farry
Mr Simon Hamilton
Mr Fra McCann
Mr Adrian McQuillan
Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:

Mrs Olive Maybin	Communications Manager – Workplace 2010
Ms Emma Wilson	Project Manager – Public Sector Jobs Location
Mr Chris Thompson	Head of Corporate Services Group

1. **The Deputy Chairperson (Mr Storey)**: I welcome the witnesses to this meeting of the Finance and Personnel Committee. Chris Thompson will introduce his colleagues to the Committee.

2. **Mr Chris Thompson (Department of Finance and Personnel)**: Introducing our team, Olive Maybin is responsible for communications in Workplace 2010. Emma Wilson works in the corporate services group, where reform is a broad part of her remit, but she has done a great deal of work on public sector jobs location.

3. **The Deputy Chairperson**: I remind members that Hansard will prepare a transcript of this meeting, and that that will be published. I also remind everyone to turn off their mobile phones. If members have any interests to declare, they should do so now.

4. Mr Thompson, you may begin your presentation.

5. **Mr Thompson**: We have provided the Committee with a briefing paper, setting out the current position on Workplace 2010 and the consultation on the location of public sector jobs.

6. I begin by putting the issue in context. The current Civil Service office estate is of variable quality. Some buildings are in quite good condition — generally, those buildings that have been leased in the last few years. However, much of the estate is in very bad overall condition and requires a great deal of investment. It has suffered over the years from a lack of investment, and that matter must be urgently addressed. Doing nothing is simply not an option; something must be done to upgrade and modernise the entire office estate.

7. At the same time, in the private and public sectors, nationally and internationally, big changes are taking place in estate management. Organisations are moving to a smaller number of large buildings, and are, in general, opting for open-plan environments. That makes for a much more efficient and effective estate, which is easier to maintain and which promotes a much more effective way of working by encouraging team-work, and so on. We want to take advantage of that.

8. Why a private finance initiative (PFI)? The short answer is that it provides best value for money. For the Civil Service to do what the private sector plans to do would cost well in excess of £100 million, and no one wants to see that money being withdrawn from public funds and frontline services. A PFI arrangement gives us an opportunity to obtain a major capital receipt for the Executive and the Assembly to spend on public services, while the funding of the ongoing service charge can be met largely from within existing resources. There are some issues around that, but, as we move forward, that is our clear objective.

9. We have embarked on a PFI procurement process, which will mean passing ownership of about 80 of our larger buildings to the private-sector partner. We have finished the "invitation to negotiate" phase. There were four bidders at that stage, and that number will be reduced to two. Over the next couple of months, we want to invite those bidders to give us their best and final offers.

10. At the same time, we recognise that there are some issues for the Assembly and Ministers, and we are clear that those issues must be considered before we move to consideration of best and final offers. The key issue for the Programme for Government Committee was the need to ensure that any contract that was entered into would not act as a fetter should decisions on the dispersal of Civil Service and public service jobs be taken at a later date.

11. I can confirm to the Committee that the contract being developed by the Department will not act as a fetter. Indeed, the key advantage of moving in that direction is that the cost of locating a building is agreed upfront in competition. As companies bid against one another, the Department considers that it can get a good deal. Therefore, the contract will provide the flexibility to deal with a situation whereby a property in Belfast has to be vacated and staff dispersed elsewhere.

12. At the same time, the Department has been consulting on the wider question of the guiding principles to underpin decisions on the location of new jobs in the context of the review of public administration (RPA), and issued a consultative document at the end of January. It proposes a number of principles, which are set out in the annex to the report. The Department intends that this clear set of principles will provide guidance to those who will have to make decisions on the location of the new bodies to be set up under the RPA. The Department is currently considering the good response to that consultation and aims to pull that together in the next month to six weeks.

13. The next step for the Department is to finalise several issues. If that can be done satisfactorily over the next month, the objective is to go to the Executive in July to seek their agreement to invite the final two bidders to present their best and final offers. After that, we can proceed to finalise the contract. At the same time, we will provide advice to the Executive on the results of the consultation on the guiding principles for the location of new jobs under the RPA.

14. **Mr Hamilton**: Mr Thompson has addressed my principal question, which concerned the flexibility in the contract. It is reassuring to hear that the contract will have sufficient flexibility to allow the dispersal of public sector jobs at a later date. Everyone is strongly in favour of their dispersal and relocation — I am thinking in particular of the location of any new public sector jobs that may emerge from the RPA.

15. Many have argued that consideration should be given to west of the Bann for any potential relocation of public sector jobs, and the report also refers to that. I was interested to learn that about half of the buildings in Workplace 2010 will be located outside the greater Belfast area, albeit they will be smaller and have fewer employees, whereas most people automatically think that public sector jobs are located in greater Belfast.

16. Is the Department exploring the option of the dispersal of jobs currently located in the greater Belfast area? Many other towns such as Bangor, Newtownards, Carrickfergus, Larne, and so forth, fit into that travel-to-work area — and even Coleraine is increasingly becoming a town to which people from Belfast could travel to work. Is that a viable option, because there would be benefits to relocating certain jobs outside the centre or outskirts of Belfast to some of those commuter towns?

17. **Mr Thompson**: The honest answer is that the Department is some way from making any decisions and is not ruling out anything at this stage.

18. The responses to the consultation were interesting. While some commentators were saying that they would like to see a very considerable dispersal initiative quickly, other experienced commentators were saying that the costs and benefits must be looked at carefully over a period. There is not, necessarily, a clear consensus that we should move straight to a major dispersal initiative, but rather we should look very carefully at the costs, savings and benefits of such a programme and then make informed decisions.

19. **Mr Hamilton**: It is very difficult to disperse jobs at departmental headquarters level. That is where the new jobs come in to it, and that is probably the best way to look at it.

20. **Mr Thompson**: There is merit in the argument that says that headquarters of Departments need to be reasonably close to each other because of the amount of work done between Departments and, now, the Assembly.

21. **The Deputy Chairperson**: This exercise was carried out in the Irish Republic, and it was not a great success. There have been major issues about the desire to have a relocation of public-sector employment in rural areas. Was consideration given to some of the problems highlighted by the exercise in the Republic when the current set of proposals was being drawn up? Public finance initiatives, especially in the educational field, have created more problems than they have solved. Are we learning lessons from that? I think especially of contracts, their duration and value for money?

22. **Mr Thompson**: Regarding the lessons to be learned from other jurisdictions, particularly the Republic of Ireland, there is a danger of generalising. The situation in Northern Ireland is different from that in the Republic of Ireland or, indeed, England or Scotland. We do not have the Dublin, London or Edinburgh factor of very high costs, great difficulty getting labour and major problems with transport; and this is a smaller jurisdiction. It would be better to look at Northern Ireland specifically and find out what is right for us, rather than move on the back of what has

happened elsewhere. The consultative document sets out what is happening in the Republic of Ireland and Great Britain. We are cognisant of it and wish to learn lessons from it, but it is important that we home in on the real questions for Northern Ireland.

23. Sometimes we get ourselves into an academic argument of PFI or not PFI, and that should not be the argument. There are some awful examples of traditional construction projects, and there are some awful examples of PFI projects. Nonetheless, there are some great examples of both. Figures from the Audit Office show that whereas 70% of traditional construction projects come in late and over budget, around 80% of PFI projects come in on time and to budget. Those figures show the stark reality of the situation.

24. We can all cite examples of poor practice in both traditional construction and PFI, and we must learn from them. The Department of Finance and Personnel has gone through a specific exercise of looking at PAC and Audit Office reports on unsuccessful PFI projects, or those those that have been perceived as unsuccessful, with the aim of learning lessons from them. We have produced a document that looks at the recommendations and states positively what we have done against each of them.

25. To generalise, planning is important, as is knowing what one wants to achieve and ensuring that it can be achieved through the contract. Also, there must be sufficient flexibility in a contract to deal with the changes that inevitably arise, yet not too much flexibility, because that costs money. Those principles are essential to success in the area.

26. **The Deputy Chairperson**: Can you please provide a copy of that document for the Committee? It would be useful for Members.

27. **Mr Thompson**: Yes.

28. **Ms Purvis**: To return to the issue of flexibility for designated buildings, what is the fixed price for vacating designated buildings?

29. **Mr Thompson**: We will not know that until we complete contract negotiations. We have some early figures, but it would not be worth quoting them because, until we finish the negotiations, we will be trying to push that price as far as we can.

30. To be clear, vacating a building costs money, whether one owns it or not. There is no such thing as free vacation. We must benchmark that against what we believe it would cost us. All the experience points to using property and estate specialists, rather than civil servants, as that is more efficient and better value for money.

31. **Ms Purvis**: That is debatable. Which buildings are designated?

32. **Mr Thompson**: Again, that is one of the issues that we will put to the Executive Committee. The final decisions have not been taken. Some buildings will be designated as “core”, and we will want to keep them for the whole period. Other buildings will be designated as “non-core”, and we will be looking for a price to vacate them.

33. **Ms Purvis**: In relation to the contract, did you use any of the EU directives on social responsibility to address social exclusion? The EU directive says that public authorities can lay down conditions concerning social consequences to attract the long-term unemployed into the labour market and to employ more disabled people than normal. Were any of those social responsibility clauses included in the contract?

34. **Mr Thompson**: We asked the bidders to respond specifically with a section on corporate social responsibility as part of their bids, and each of them has put forward several proposals. I am not familiar with the specifics.

35. **Mrs Maybin**: Each of the bidders was specifically asked what they would do about economic, social and sustainability issues. That was part of the evaluation criteria at the invitation-to-negotiate stage. We will continue to assess that at the next stage. We are clear that corporate social responsibility is a key objective, and we will want to see evidence of it, including their experience in these areas.

36. **Ms Purvis**: It is important that the Department take account of this EU directive and use it in all forms of public procurement to help address social exclusion.

37. What contingency arrangements are in place, should something go wrong during the life of the contract? What will happen after the contract expires?

38. **Mr Thompson**: I am unsure of what the member means by “something going wrong”.

39. **Ms Purvis**: I mean if the provider goes bust.

40. **Mr Thompson**: There will be a specific provision in the contract for what will happen in that circumstance. The contract will also cover refinancing and a range of other problems that might occur during the life of the contract. On all such matters the Department follows the standard guidelines from Her Majesty’s Treasury.

41. As to what happens when the contract ends, towards the end of the period a new procurement process will commence. The private-sector partner

will not be able to remove us from the buildings that we occupy. That will be specified. We will embark on a new procurement process.

42. **Ms Purvis**: Might that process not cost another £1·5 billion?

43. **Mr Thompson**: Over the 20-year period the contract is valued at £1.5 billion. At present the estate costs in excess of £80 million per year. Whatever we do, there will be huge expense for the office estate of the Civil Service.

44. **Mr O'Loan**: This is a huge issue, and I have many questions. I do not want to take too long.

45. **The Deputy Chairperson**: We are doing reasonably well with time, but I am conscious that we have a deadline to meet.

46. **Mr O'Loan**: I will start with a couple of quick questions. I am unclear even about basic points. What is being sold? Or, to put the question another way, if a 25-year contract were awarded, who would own the buildings on the day after the 25 years had passed?

47. **A Member**: Not us.

48. **Mr Thompson**: The private-sector partner would own them. Some of the Department's buildings are leased, and we do not own them. In those cases the leases would be novated to the contractor. The day after we sign the contract, the buildings that we now own are owned by the contractor, and he pays us for them.

49. **Mr O'Loan**: Issues will arise about the next term of contract or the following 25 years, but I will not raise those now.

50. Can you confirm that the contract will be awarded to one bidder only?

51. **Mr Thompson**: I confirm that.

52. **Mr O'Loan**: The last sentence of paragraph 14 of your submission reads: "The provision of accommodation and the disposal of properties will also be handled more efficiently and this will provide the opportunity to accelerate the implementation of any dispersal decisions."

53. What did you mean by "more efficiently"? "More efficiently" than what? More generally, are you arguing that, if the Executive were to decide in favour of dispersal, that could be done better — without defining exactly what "better" means — under this PFI arrangement than if the Government were to retain control of their asset?

54. **Mr Thompson**: That is the experience of the wider public sector on a national basis. That is why the Government employ experts to do this. Experts are much better than the Civil Service at getting the best price for the property, and they do it quickly.

55. **Mr O'Loan**: You referred to the trend towards a smaller number of large buildings. Is there, potentially, a conflict with the idea of dispersal in that?

56. **Mr Thompson**: Not necessarily. The Department has buildings where two dozen employees work. Over many years without a proper estates strategy, we have accumulated little bits of accommodation here, there and everywhere. What tended to happen was that the Department acquired a new function with, say, 100 members of staff. We looked for accommodation for those 100 people. Six months later a new function was acquired with another 50 members of staff, and we found another building for them.

57. There are bits of accommodation all over the greater Belfast area, but that does not really represent an efficient estate or an efficient way of working.

58. The relocation of people to larger buildings could easily be accommodated in a dispersal proposal. Dispersal would not involve moving a group of only 50 people to another building; it would probably be a little more ambitious than that. We would look for such numbers as would provide us with both a viable building and a viable structure for the staff. Staff must be able to advance in their careers, rather than just do something that will see them through for a few years before they move on anyway.

59. **Mr O'Loan**: One concern about 'Guiding Principles for the Location of Public Sector Jobs in Northern Ireland' is that it was published under the banner of the review of public administration. My understanding was that the RPA relates only to certain elements of the public services and does not include central Government Departments. Arguably, dispersal considerations must be much more widely based than the terms of the RPA.

60. **Mr Thompson**: I entirely agree with that point. The specific purpose of that document was to ensure that the decisions that we know must be taken over the next two or three years are not made in a vacuum or without any guiding principles —

61. **Mr O'Loan**: I accept the need to establish guiding principles. I am quite happy with that part of the document's title.

62. **Mr Thompson**: However, the Executive may wish to consider whether a wider examination of dispersal is in order.

63. **Mr O'Loan**: The document places quite an emphasis on the efficiency of dispersal. In a place the size of Northern Ireland, there are arguments for centralisation; for example, it provides us with economies and allows people to meet one another. Could a loss of efficiency result from dispersal? Mr Thompson has just mentioned the related point that career opportunities must be made available for Civil Service staff.

64. **Mr Thompson**: This is not a simple matter. The principles that we have set out could arguably have wider application, but if those were to be the principles on which we decided the location of public sector jobs per se, some conflicts would arise. Setting up a major Government organisation in an area of high unemployment would clearly have a social and economic effect. However, would that provide value for money? What would happen to the staff who are currently employed in that organisation? Those issues must be balanced.

65. In the end, I believe that a political judgement is required and I look to Ministers to take those decisions. Whether or not there should be a presumption towards dispersal is a political judgement. It is certainly worthwhile to carefully examine the pros and cons of the matter and to set those out clearly. However, such decisions will ultimately be subject to political judgement.

66. **Mr O'Loan**: Some reference has been made to bad experiences, such as the electricity generation contracts, which were so badly drawn up that we were, in effect, writing blank cheques, and a recent hospital car park contract. This may be a difficult question to answer: has enough been learned from those experiences? What guarantees can we be offered that people will not be saying that a real mess was made when this matter is considered in five, 10 or 25 years?

67. **Mr Thompson**: A lot of experience has been gained. A key area of criticism was that super-profits were made in, for example, refinancing or building contracts.

68. All the up-to-date provisions to ensure that the Government get the best value and a significant share of any return if superprofits are made through the reselling or refinancing of a building will be in place.

69. **Mr F McCann**: Most of my questions have been asked. Everyone around the table has read and heard horror stories about the affect that PFI has had on communities and many councils.

70. Attempts can be made to deal with contractors making superprofits. However, my concern is that a contractor could go bust in the middle of a contract and the Civil Service would have to pick up the pieces. That would end up costing a vast amount of money. The whole trail of PFI has been littered with such eventualities. It has been said that people have gained experience. However, in recent years, huge profits have been made or contractors have gone bust. Such situations have resulted in schools coming to the point of closure, as tenders have to be renegotiated because the required finance is not available.

71. **Mr Thompson**: Sometimes people have short memories. Prior to PFI, there were just as many cases of absolute disasters in the procurement process. The National Audit Office concluded that 70% of traditional procurements in the area were late and over budget. In contrast, 80% of PFI procurements have been on time and to budget — those are stark figures.

72. I accept totally that there have been problems with some of the contracts. However, we now have in excess of 15 years' experience in dealing with those. An analogous contract for the Department for Work and Pensions office estate has been in place for over 10 years, and has gone through a couple of major renegotiations. The National Audit Office regards those renegotiations as having provided good value for money.

73. Therefore, it is not, as is sometimes a perceived, a picture of disaster. On the contrary, it is a picture of some really good achievements and some problem areas. However, I have no doubt that we will learn from those problem areas.

74. **Mr F McCann**: The argument has been made that, as far as the PFI is concerned, every project has come in on budget. However, this morning's argument is not about the ability of projects to stay within their budgets — it is about the period of 10, 15, 20 or 25 years, and the huge profits that will be made by contractors, mostly at the expense of the public.

75. **Mr Thompson**: Her Majesty's Treasury has issued standard guidance on that issue, which will be included in future contracts to ensure that such problems not happen again.

76. **Mr F McCann**: Further to a question that Dawn asked, you stated that a consultation document on the relocation of public sector jobs would be compiled and a presentation to the Executive take place. When will that happen?

77. **Mr Thompson**: A bit of water needs to flow under the bridge before that happens but, at present, we are hoping that that will take place in mid-July.

78. **Mr Beggs**: I must learn a lot and quickly about this area, but I am open to new ideas to improve

efficiencies. If we can save money, there will be more to spend in other areas, and there will be less tax. We must be open to new ideas and open to the private sector to improve the efficiency, maintenance and running of buildings.

79. I have not got my head around the idea of selling properties in order to rent them back. You do not sell your house to rent it back, knowing that you will still want it after 25 years. I am still to be convinced of that.

80. I echo what has been said about selling a number of smaller sites in order to consolidate into more flexible, open-plan office space. That must happen to reduce running costs and to provide reception facilities etc.

81. You have justified a figure of £100 million for investment in the current estate. Given the considerable price increases in the property market over the past few years, and to ensure that you get value for money, has there been a recent re-evaluation of the large number of smaller properties that you propose to sell off and not site civil servants in?

82. Secondly, I return my problem with the large number of buildings that you know you will require at the end of a 25-year sale and leaseback period. I am concerned that, the next time around, in a less competitive environment, the number of bidders that can provide space for thousands of Civil Service jobs may be limited. Have you thought of difficulties such as that, which might emerge further down the line, or about issuing contracts for maintaining and running properties, but retaining ownership? I am not convinced that a property that you know you will need should be sold.

83. **Mr Thompson**: First, concerning the value for money of sale and leaseback, that is standard practice in both the private and public sectors — banks, which are cash rich, do it. Why would they use sale and lease-back if they did not regard it as best value for money?

84. I wish to make it clear that those buildings are office blocks — and in some cases quite ugly office blocks. Nothing will be sold that has any architectural or historical value. In no sense will anything of historical value to Northern Ireland be given away.

85. We are taking the best expert advice on the valuations of the properties. The endeavour to get that right is one of the key areas in the whole contract. In addition to independent experts, we are using experts from Land and Property Services and the Planning Service and are confident that we will get the best advice. We must do that and use that best advice to ensure that the valuations are correct.

86. In relation to your concerns about the number of bidders at the end of the contract being limited, the Civil Service is a blue-chip occupier, which any landlord would give his eye teeth to have — we do not go bust, are generally well behaved and we think in the long term. When the contract was put out to tender, the biggest players competed for it. I have absolutely no doubt that it will be the same the next time. There is a sense that bidders now see Northern Ireland as somewhere they want be, and it is good that they want to be part of the future.

87. The last point you raised was about whether we considered the less ambitious option of keeping the buildings and just issuing contracts for maintenance and development.

88. The problem is that we would then be landed with a major bill. The Department would have to bid for a significant amount of money — more than £100 million — in order to meet the requirements for those buildings. Does anyone really want £100 million to be taken away from front-line services? I do not believe so. Moreover, that figure does not cover maintenance, as it relates only to the development programme. The necessary money has not been spent on maintenance of those buildings. Whatever was to happen, more money would need to be spent. The contract allows the Department to keep the buildings and still give the taxpayer best value for money.

89. **Mrs Maybin**: It is not a straightforward case of selling buildings to lease them back. The Department will not simply sell a property and rent it back. It is part of a package whereby the Department will sell property to a private-sector partner, which will then own that property. In return for paying rent, the private-sector partner will maintain and service the building for the contract's lifetime, a job to which it will be dedicated. It is for that package that the Department will pay.

90. **Mr Beggs**: Does the Department have a list of the buildings that it proposes to sell?

91. **Mrs Maybin**: Yes.

92. **Mr Beggs**: Does the Department have a list that indicates whether the Department is the current owner of a building or whether that building is leased, and, if so, for how long? Does the list include buildings that it does not plan to sell? How does the Department decide which buildings to sell and which to retain?

93. **Mr Thompson**: The Department decided which buildings it absolutely wanted to keep, and which ones

it was certain it did not want to keep. The latter would be included in the first contract. Those buildings that the Department has not yet decided upon have been kept out of the contract at present in order to give the Department a measure of flexibility for the future.

94. Dispersal does not concern the whole estate, or anything approaching it. The Department has given itself a good measure of flexibility by holding on to several buildings. It can also wait and see what happens with the contract. That is a useful option to have.

95. **Mr Beggs**: To give the Committee some scale of what is suggested, can the Department tell us how many civil servants could be located at each of those sites? I am concerned that County Hall in Ballymena is one building included in the contract.

96. **Mr Thompson**: Yes, it is.

97. **Mr Beggs**: Where else in Ballymena would planning permission be granted for an office of that size, complete with car parking? If that site is sold at the end of the contract, will the new owner provide the Department with the same service in Ballymena?

98. **Mr Thompson**: When the lease is up, the owner cannot throw the Department out of the building in Ballymena.

99. **Mr Beggs**: The owner can renegotiate the lease, however. What are the renegotiation terms?

100. **Mr Thompson**: The situation is the same when any contract ends. The Department has many leases. In fact, more than 30% of the Department's estate is leased.

101. **Mr Beggs**: What negotiating strength will the Department have when the lease runs out? Does negotiating strength lie in the Department's hands or in those of the owner? There is no clarity on such an important issue. I can accept your point when, at the end of the lease, other options are available to the Department. However, when the Department has no other options, potential difficulties arise.

102. **The Deputy Chairperson**: I have to say, Chris, that neither Declan nor I would agree that there are any ugly buildings in Ballymena. [Laughter]. I hope that they do not fall into that category.

103. **Mr O'Loan**: County Hall in Ballymena has won awards for its architecture. That is not even recognised locally.

104. **The Deputy Chairperson**: That is right.

105. **Mr Beggs**: When was that? [Laughter].

106. **The Deputy Chairperson**: Before I invite Dr Farry and Ms Purvis to put their questions I want to ask Chris about his reference to independent experts. Concerns are often raised about the cost of consultancy. Do you have any idea of the current associated consultancy costs of the project?

107. **Mr Thompson**: Approximately £4·5 million has been spent to date. We estimate that by the end of the contract we will have spent around £8 million on consultancy, which represents about 0·5% of the total value of the contract. That is the norm for a contract of its size — it is worth £1·5 billion. If we can save 1% by using the best experts, we save a heck of a lot more than £8 million.

108. The pitfalls of PFI are often talked about, and they are a reality. We have a set of advisors who have been there and done it both from a contractor's point of view and that of a client, and they can bring that experience to us. People would want us to avail of the best possible advice to ensure that we got the best value for money in the contract, which is the main issue in the long term, rather than the short-term costs of consultancy.

109. **Dr Farry**: I assume that Parliament Buildings is one of the safer ones.

110. **Mr Thompson**: Yes. It is specifically excluded.

111. **Dr Farry**: That is wonderful. Just for clarification, are we talking solely about the estate of the 11 Departments, or are the agencies of those Departments also included?

112. **Mr Thompson**: Both are included; for example, the Social Security Agency and the Department for Employment and Learning, which are housed in the Jobs and Benefits offices, would be included in the contract.

113. **Dr Farry**: With regard to the dispersal of agency buildings in particular, to what extent do you take into account the skewing of those buildings that was a result of the divisions in Northern Ireland? What allowances have you made for a changing community and political climate? Is there any scope for the use of bigger buildings to serve a wider range of clients on an integrated basis?

114. **Mr Thompson**: I am sorry —

115. **Dr Farry**: Let me give you an example. There are Jobs and Benefits offices on the Falls Road and the Shankill Road. Will the provision of services follow a continuing pattern? Is there no suggestion that one office could be provided that would serve a wider community?

116. **Mr Thompson**: Future strategies will probably make provision for more back-office services, but there is no question of taking those front offices away

from those areas. Those offices are included in the contract because we see them having a long-term future in those areas.

117. **Dr Farry**: My concern is that we will lock ourselves into a pattern of provision that reflects a past that met the needs of a divided society, without recognising that the potential for flexibility exists as the political situation changes in the years to come. There have been huge changes in the past few years, and 25 years is a long time.

118. **Mr Thompson**: I am not sure that I would accept that premise. We have tried to provide offices where they are needed, and our clear remit is to serve the whole community, wherever those offices are situated.

119. **Dr Farry**: What are the underlying assumptions behind the raw numbers of personnel employed by the Northern Ireland Civil Service? It currently employs some 29,000 or 30,000 people. What plans are being made?

120. **Mr Thompson**: The contract covers the accommodation of 18,000 staff, so I am hard pushed to see how fewer people than those 18,000 could be employed. There are currently 29,000 to 30,000 civil servants, and that number gives us a lot of flexibility.

121. Flexibility is built into the contract so that minor fluctuations can be dealt with. However, the contract must assume that the Civil Service will not be the same in 20 years as it is today. Moving to open-plan, multi-purpose accommodation will make that change easier to deal with than continuing with cellular accommodation that is based on a particular requirement at a given time.

122. **Dr Farry**: What allowance is being made for the possible future rationalisation of Departments? At the moment, several Departments share the same building; for example, the Department for Regional Development and the Department of the Environment are based in Clarence Court. Other Departments are scattered over a host of buildings. The Assembly may in future specifically decide to rationalise the 10 Departments that were established in 1998. Would it make more sense if DRD and DOE were merged or something similar? Is the contract flexible enough to allow that?

123. **Mr Thompson**: One of the beauties of having a largely open-plan environment is that accommodation is multi-functional and is not designed specifically for a particular Department. Our Clare House pathfinder project offers people the opportunity to see how flexible a totally open-plan environment can be. It does not matter what staff are there or what Department employs them; their environment can be changed. However, changing the number of Departments in a cellular environment is a more difficult process that involves knocking down walls and deciding what staff should go where.

124. **Dr Farry**: In the 25-year framework, policing and criminal justice powers may be transferred directly to the Assembly. Any future such Department will have a large estate. How does the contract deal with that?

125. **Mr Thompson**: The NIO office estate will be part of Workplace 2010; therefore, any criminal justice Department will be easy to deal with because it will have been included already. That Department will be a paying customer that wishes to be a part of Workplace 2010; it will be accommodated accordingly.

126. **Dr Farry**: Will the Northern Ireland Civil Service co-ordinate with the NIO?

127. **Mr Thompson**: Yes, certainly with regard to office accommodation.

128. **Dr Farry**: Are you leading on the project?

129. **Mr Thompson**: Yes. The NIO is part of our project board.

130. **Dr Farry**: Therefore the two agencies are not doing separate things.

131. **Mr Thompson**: That is correct.

132. **Mr Beggs**: You mentioned that the Social Security Agency is included in the contract. Branches of that agency will always be required in each town in Northern Ireland. The agency has just completed a major refurbishment that included amalgamating previously distinct operations. It is being upgraded, so why sell it off?

133. **Mr Thompson**: We want it kept to that standard. Over the past few years we have refurbished but not maintained buildings. When seeking efficiencies Departments look for money in accommodation.

134. **Mr Beggs**: Why not subcontract the maintenance of the buildings? Why sell them?

135. **Mr Thompson**: Selling them provides better value for money, effectively.

136. **Ms Purvis**: Around 70% of soft services are already tendered out to contractors. However, a number of support-grade staff remain part of NICS. There is an issue about the transfer of those staff, who are mostly female and in low-paid jobs. The briefing

paper states that it is very unlikely that there will be compulsory transfers. How confident are you that most of the support-grade staff will be redeployed in better pathways?

137. **Mr Thompson**: One of the Department's key objectives is that those members of staff who wish to be redeployed will be redeployed. We are working positively on that objective, and I hope that it can be achieved. We have asked staff whether they wished to be redeployed, and they have responded positively. Members of staff who previously had no career future see, possibly for the first time, new career potential.

138. Arrangements have been put in place to ensure that those staff get the appropriate training and development to move forward positively. The Department has started the process of redeployment, and we hope to achieve the objective. It is a positive process.

139. **Mr F McCann**: It is mid-2007 and the initiative is called Workplace 2010, but, at the current rate of progress, the possible completion date for the project could be 2020. If that is the case, is it not better to go back to the drawing board to allow the new dispensation — with new people running the show — a better opportunity to deal with the situation?

140. Despite the possible savings of £100 million, like Roy, I find it difficult to grasp why, when the Department has huge estates and buildings, it is not deemed easier to decant into those buildings that are in a decent state, sell some others and rebuild — at no cost — on land that the Department already owns. Would that not make a saving?

141. **Mr Thompson**: That would require major investment.

142. **Mr F McCann**: Major investment is already being made.

143. **Mr Thompson**: It would require major investment, and the business case shows that it would be much more expensive. The business case, which has been carried out to the most stringent requirements, shows that the option that the Department is pursuing offers the best value for money.

144. **Mr F McCann**: What about the dates for the project?

145. **Mr Thompson**: We hope to sign a PFI contract early in the next calendar year, and work will begin soon after that. To go back to the drawing board means that it will be another five years before anything happens.

146. **Mr F McCann**: Many Members are not so sure that the plan was right in the first place.

147. **Mr Thompson**: That is why the Department has made it absolutely clear that the Executive will make the final decision.

148. **The Deputy Chairperson**: The Workplace 2010 initiative will be discussed at the Committee's next three meetings, as scheduled in the Committee's work plan. Today has been an opportunity to ask questions and examine the briefing paper. We will be able to raise our concerns before the Minister takes the issue to the Executive in July. The Workplace 2010 initiative is a major project, and major issues and concerns are being raised.

149. A number of issues have been raised that need clarification. Can the Committee get some information from the Department that will help with its deliberations? Could the Committee be provided with a copy of the comparison or benchmarking exercise that DFP is undertaking on cost of vacating workplace buildings versus the cost of selling or moving out of those buildings?

150. **Mr Thompson**: As the bid costs are very much part of that exercise, it will be very difficult to provide any documentation on that to the Committee; that would make the costs public. We are in the middle of a commercial procurement process, and to make bid costs public in the middle of such an exercise would be quite unprecedented and anti-competitive.

151. **The Deputy Chairperson**: What could you provide to the Committee to give some idea of the reasons behind the overall decisions?

152. **Mr Thompson**: It might be possible to present a summary of the business case, if the Committee would find that helpful. However, it would be difficult to have that ready for next week; I will find out whether that is feasible. I do understand your point.

153. **The Deputy Chairperson**: Because of the various questions that have been asked and the concerns that have been raised, it is vital that we can have a summary and an overview of the main issues. A subgroup has discussed those issues, but we need to bring all those trains of thought together so that the Committee can get a consensus about what issues the Minister should move forward on.

154. **Mrs Maybin**: On the issue of costs I would like to make a point about vacation prices, for example. There are a lot of issues around property valuations, disposals, vacation, accounting treatment, capital payment and the unitary service charge. It is important not to look at any one of those in isolation. All the issues should be considered as a whole, rather than just a single element such as the cost of getting out of

a building or the cost of disposal. The contract must be put together in a way that, collectively, provides best value. Therefore, it is not useful to consider individual components.

155. **The Deputy Chairperson**: We can leave that issue. Roy Beggs also asked for the list of buildings.

156. **Mr Thompson**: That list can be provided to you quite quickly.

157. **The Deputy Chairperson**: I thank Chris Thompson, Olive Maybin and Emma Wilson for coming. I thank Chris for doubling up and doing two tasks — I appreciate that.

20 June 2007

Clare House 'Health Check Review'

Members present for all or part of the proceedings:
Mr Mitchel McLaughlin (Chairperson)
Mr Mervyn Storey (Deputy Chairperson)
Mr Roy Beggs
Mr Fra McCann
Ms Jennifer McCann
Mr Declan O'Loan
Ms Dawn Purvis
Mr Peter Weir

Witnesses:

Dr John Mallon
Mrs Amanda McEwan
} Northern Ireland Statistics and Research Agency (NISRA)

158. **The Chairperson (Mr McLaughlin)**: The following session will be recorded; I welcome our colleagues from Hansard. The transcript of this discussion will be published. Please observe the usual warning and turn off mobile phones. Copies of the health check report itself about the Clare House Pathfinder project for Workplace 2010 are available, as is the relevant extract from the research paper that was considered at last week's meeting.

159. I welcome Dr John Mallon and Ms Amanda McEwan to the meeting and invite them to address the Committee.

160. **Dr John Mallon (Northern Ireland Statistics and Research Agency)**: Amanda and I work in the Northern Ireland Statistics and Research Agency (NISRA), an executive agency within the Department of Finance and Personnel. Its function is to provide a registration and statistics and research service to inform Government policy and the wider democratic process. The agency is the principal source of information, for example, on the population of Northern Ireland and social and economic conditions.

161. If the Chairperson is content I will begin by providing a brief background to the review that we undertook of Clare House, outlining the methodology before summarising the main findings and the recommendations that are contained in the report that you have in front of you.

162. In November and December 2006, the Central Procurement Directory (CPD), the Delivery and Innovation Division (DID) and the Strategic Investment Board (SIB) relocated to Clare House at the Holywood Exchange on the shores of Belfast Lough. This move was the second of two major Pathfinder projects that are part of the Workplace 2010 programme. They are aimed at testing and supporting the development of workplace standards and new ways of working. Learning from the Clare House move was going to be very important for the wider Workplace 2010 programme, and that is why NISRA was asked to assess the impact of the new move so that lessons could be learned to inform future policy and Workplace 2010 strategy.

163. It should be said at the outset that the scale of the change, and the adjustment embraced by all those making the move, was very significant and a key achievement in itself. The CPD and the DID were split over three sites, so it was a big move to get everyone into one building.

164. Our evaluation was planned in two stages, and the first stage was an interim, very light-touch stage referred to as a health check review.

165. The review was to be carried out a few months after the organisations moved into Clare House, and its purpose was to identify any early management concerns and sort out teething problems. It is planned that the second stage review will commence six to nine months after the move. It will be a more comprehensive and robust post-occupancy evaluation.

166. The informal health check review took place between 5 February and 20 February, and a report was produced. The Committee has seen a copy of the report, and when reviewing the findings I urge members to remember that it is a light-touch, informal evaluation; the more robust evaluation will be made in September, and our report will be made available in October.

167. Our methodology consisted of using four different types of data-gathering techniques. A short online questionnaire was issued to the 410 staff in the building, and we achieved a good response rate: 64%. That compares favourably to other surveys of that type that we have conducted. We

also ran three focus groups comprising 18 randomly selected staff members. That allowed us to have a deeper, if somewhat limited, insight into the views and experiences of staff. We also undertook semi-structured interviews with 15 staff, which included a representative from the trade union side, and we made some on-site informal observations across several key work areas in the building. That methodology provided us with a reasonable amount of input and enabled us to get a lot of information from a range of perspectives in a relatively short time.

168. Our findings were consistent across the four techniques used. However, there was a variation between the different groups in the building. For instance, CPD staff were more negative than those in DID and SIB. Perceptions may well have been influenced by the nature of the work in which people were engaged, and the standard of their previous office accommodation definitely influenced their perceptions of new accommodation. If one previously worked in poor office accommodation, he or she would think that Clare House was the best accommodation ever seen, but if one had worked in good office accommodation, they would not rate Clare House so highly.

169. Some positive findings emerged from the review. Staff were impressed with the improved interaction, communication and teamworking that came about following their move, and they liked the good access to the formal and informal meeting areas. Some people said that the building created a positive impression. It was described as bright, modern and airy, and the sea views were welcomed. The canteen facilities were considered to be good, and there was a general acceptance of the open nature of the building, which was perceived to enhance the more collaborative forms of working and teamworking. Even though staff experienced significant and substantial IT problems, which I will talk about later, many valued the opportunity to work with new state-of-the-art technology — when it worked.

170. CPD staff noted the benefit of their division being located together because, as I said earlier, they were previously spread over three sites. They recognised the massive improvements in communication and team working that were gained by having everybody on the same site.

171. There were also some negative findings in the review and lessons to be learned from the move. The real purpose of the interim health check evaluation was to see what lessons could be learned, so that teething problems, etc, could be resolved before the full evaluation was carried out.

172. Considering the scale of the IT innovation, some problems were to be expected in the move; however, the extent of the problems experienced in Clare House was substantial. Staff were aggrieved and frustrated with IT problems that prevented them from doing their work. It was the IT problems, in fact, that overshadowed the bigger change issues in the working environment that we were more interested in for the purpose of the evaluation.

173. Staff appreciated the new telephone systems and liked the state-of-the-art equipment, but they found them unreliable and complicated to use. I am not sure whether we will find the same issues when we come back in September. It may well be akin to getting a new video recorder: it takes some time to learn how to use it, but you appreciate its benefits when you have figured it out. However, we will return to Clare House in September and evaluate the equipment.

174. Concerns were expressed about the temperature in the building; some people found it either too hot or too cold. It is not uncommon to find people complaining about temperature in such large, open buildings. I hope that work will be carried out over the next while to regulate the temperature.

175. Staff felt that there was a lack of confidentiality and privacy, largely due to the perception that telephone calls could be overhead and that computer screens were highly visible. Sometimes screens contained sensitive information, which raised obvious concerns.

176. Concerns were also voiced about the lack of storage, particularly by CPD staff. I mentioned earlier that some groups were more negative than others and that CPD staff were the most negative. It may well be that those staff were most affected by IT problems. CPD has many professional staff who use specialised computer programmes, so IT difficulties have had a significant impact on their business. Their negative experiences have therefore been reflected in the report.

177. I will conclude by summarising our main recommendations. We made two sets of recommendations; one for Workplace 2010, and the other for the CPD, DID and SIB inhabitants of Clare House.

178. One of the recommendations to CPD, DID and SIB was that existing protocols to minimise noise and distractions should be reviewed and promoted. Leaflets had been issued about protocols, but, in carrying out the evaluation, we found that many people had not heard of them. Obviously, the message about those protocols needed to be reinforced.

179. Staff made a number of suggestions during the evaluation, which we have documented in our report.

We have recommended that the Clare House user group examine those recommendations to see if any of them should be acted on.

180. We also recommended that, despite the IT problems, communication about IT issues should be much better. People should be kept informed about what is happening — for example, they should be given a timescale for getting their problems addressed. We also recommended that the findings from our report and any agreed forward action should be communicated to staff. That was important, as we knew that we would be carrying out a more formal and substantive evaluation in six or nine months' time, and we wanted to ensure that staff would co-operate with it. Obviously, if staff who had participated in the first evaluation had not received feedback, they might have felt ignored and perceived little value in participating in a more formal evaluation.

181. For Workplace 2010, we recommended that consideration be given to changes to the physical layout or fit of the building to help to alleviate the identified problems with noise and distractions. We also recommended that similar projects be ready before staff should move in and that particular attention be given to ensuring that enough time was built in to test the new technologies. The major problem in Clare House is that the new technologies have not worked as they should have.

182. That concludes my summary. My responsibility was to manage and quality-assure the project, and to design the next project. My colleague Amanda McEwan was involved in some of the fieldwork.

183. **The Chairperson**: Mrs McEwan, have you any comments at this stage?

184. **Mrs McEwan (Northern Ireland Statistics and Research Agency)**: Not at this stage. I think that Dr Mallon has covered everything.

185. **The Chairperson**: Thank you for that presentation, Dr Mallon. I appreciate how quickly you took the Committee through it.

186. **Mr O'Loan**: I thank Dr Mallon for his presentation.

187. Some of the issues that have been raised can clearly be addressed. Obviously, there were major IT problems, but that is not an inherent design fault in the project. An issue that particularly concerns me — and it concerned me before I read the report — is the current advocacy of open-plan offices. Those steering Workplace 2010 have told us that the modern philosophy is that office space should be open-plan. I wondered about that when I first heard it, and I am interested to hear about the evidence of significant problems with noise, interruption and, in particular, confidentiality.

188. At all levels there are frequent instances when people require confidentiality in order to do their work.

189. Has this been fully thought through? In the past, there have been situations in which major design innovations have turned out to be disasters. For example, high-rise flats were a fantastic solution 20 or 30 years ago but, in a short space of time, it was realised that they were an absolute disaster. I wonder whether open-plan offices could be a major mistake of the same nature?

190. **Dr Mallon**: That is an important question, and most people who have not worked in open-plan accommodation before would have those concerns. Indeed, having worked in cellular-type accommodation and then in an open-plan situation, I shared those concerns.

191. The job of the independent evaluator is to assess whether those concerns are realised in the workplace and whether they pose major impediments to a business operating effectively. Our next evaluation will identify the issues that need to be resolved.

192. **The Chairperson**: The Committee will be following that evaluation work, because it will be fundamental to the Workplace 2010 project.

193. **Ms J McCann**: The health check report states that, on a scale of one to nine, the impact of the new workplace on staff effectiveness was rated at only 3·91. Given that the purpose of Workplace 2010 is to produce a more efficient service, I am concerned that over half of the staff are saying that the new workplace is not helping them to do their jobs effectively.

194. **Dr Mallon**: That statistic is a major concern for everybody involved in the project. The survey that was carried out was an initial health check. If, when the second evaluation is carried out, we find that a high proportion of staff are still saying this, it would mean that the project would not be successful.

195. Much of the negativity has been due to the failure of IT, and I expect that when those problems are sorted out, that statistic will increase. However, if there is no increase and the workplace is not leading to more effective working practices, we will report on that when we do the evaluation.

196. That statistic will be tested in full when the new systems have had time to bed in and the teething problems have been sorted out. It is quite right that if we ended up with figures like that after six or

nine months it would be of significant concern to all parties.

197. **The Chairperson**: How long should pilot schemes run before implications can be assessed?

198. **Dr Mallon**: It is important when people move into buildings that all the teething problems are sorted out. It would appear that for a whole range of reasons people were moved into Clare House before the various technologies had been tested thoroughly. After a period of six to nine months, those technologies should be been tested and any problems ironed out, so that would be a good time for us to go in and obtain baseline information. By that stage, people should have settled into the new working environment and would be able to make a realistic appraisal of their new working conditions. The difficulty here is that the significant problems with IT, printers etc, overshadowed everything else and we could not get a good evaluation of the changes in working practices.

199. **The Chairperson**: The assessment should not be clouded or corrupted by worries about operational issues. Those need to be separated and resolved early so that it is possible to deal with work-practice issues.

200. **Mr Beggs**: Mr Mallon mentioned that people's views may be clouded by the type of accommodation they came from.

201. What standard of offices did each of the groups come from?

202. **Dr Mallon**: The standards varied. Some staff came from state-of-the-art offices that they were reluctant to leave. They might have been happy with their previous location and unhappy with the move to a different location. For those who previously worked in good city-centre office accommodation that had good storage facilities and the software and hardware that they needed to do their jobs, it might have been inconvenient to them as individuals to be transferred to the new site —

203. **Mr Beggs**: Did any staff come from bad accommodation?

204. **Dr Mallon**: Yes, I imagine that a number of people did, but I did not assess all the accommodation. Amanda McEwan might have information on the quality of accommodation that people had before the move. The survey included a question on whether staff felt that their new office accommodation was an improvement over their previous accommodation.

205. **Mrs McEwan**: The Central Procurement Directorate (CPD) staff were previously spread across three sites. Although those who were based at Causeway Exchange were in a modern open-plan building, other CPD staff were housed in dated buildings that were sectional in nature and had cellular offices. The staff came from different backgrounds.

206. **Mr Beggs**: It strikes me that some comments in the report are fairly optimistic, given some of the raw information. Section 5 leads off with "Main conclusions: successes", but even the list of successes includes a recognition that it would be good if the IT worked. Surely that is a negative point that should not be listed as a success.

207. As Jennifer McCann said, the rating for how well the new workplace helped staff to do their jobs effectively — 3·91 on a scale of one to nine — is atrocious for a brand new building. Frankly, that is a worrying figure for a building that was supposedly planned for new ways of working. The fact that a building with brand new equipment, new offices and a new canteen has been given a rating of 3·91 is extremely worrying. It is wrong for the report to lead off with all the successes.

208. There is a major negativity in the underlying figures in the report. If one digs down into the questionnaire responses that are given in section 8, it is apparent that the number of people who commented on the worst aspects was greater than the number who commented on the best aspects. The report seems to put a positive spin on the move, but I think that it highlights more areas of underlying concern than might be apparent from some of its headline paragraphs.

209. I am surprised that staff are mentioning the lack of a flip chart in the conference room. Surely if people mention that sort of thing to their team manager, it should be resolved within a couple of weeks. Why was that still on the agenda after several months? I am at a loss to think why staff made that sort of comment. Are there issues in the PFI agreement about who is responsible for the flip chart? Why was that an issue?

210. **Dr Mallon**: I do not know why that was an issue. We are not involved in the management of the building, so we would not follow comments like that through.

211. On the idea that the report puts a positive spin on the move, a report such as the health-check review can either be completely negative by highlighting a thousand things that were wrong with the move or, given that it is an interim evaluation, it can try to strike a balance by identifying what went well and pointing out in an objective way what went wrong.

212. We have said that there are major failings with the building and we have provided all the data and comments. We have tried to give a balanced view that includes both positive and negative findings. Given the temptation to allow the negative findings to overwhelm the whole report, we strived to ensure that we have also identified positive aspects of the change.

213. However, we have been forthright in setting out the things that did not work well. For example, we have published that 3·91 figure and made it available to a wide audience. Our job is to provide an independent evaluation. The health check looks at what lessons can be learned. The idea behind a health check is to find out what is not working well and to consider what steps could be taken to resolve problems now, prior to a full formal robust evaluation. The health check takes a slightly different format because the idea is to try to identify problems so that they can be resolved.

214. In my view that is a positive process, and that will be reflected in the report.

215. **Ms Purvis**: Few people like, or embrace, change, especially those who are comfortable, settled and do not want to move. Plans have been laid for a formal post-occupancy evaluation in May and June. Is that under way?

216. **Dr Mallon**: The evaluation will take place in September, and the report will appear in October. It was decided to delay the evaluation so that it would not run over the summer months when the number of responses would be poor. That also allows for some of the action initiatives to be undertaken on the basis of the comprehensive interim evaluation.

217. Our problem is that the interim evaluation — or health check — was more robust than was expected. That gave an opportunity to take more action. A reasonable period should elapse between the interim health check and the formal evaluation. It seemed more sensible to the project board, therefore, to conduct the evaluation in September, rather than over the June and July holiday period. The report will appear in October. I am content with that. I want to have a clear analysis of problems that have arisen, rather than have the view complicated by initial teething issues. The next report should present a clear view of how the building is operating and whether it is encouraging more effective working practices. Everyone involved has the same objective: to improve working practices.

218. **Ms Purvis**: Are you planning any comparative analysis with similar studies? Moves such as this have taken place in England, Wales and Scotland. Studies may have been completed two months, six months or a year after the move. Does anecdotal evidence suggest that staff were reluctant to leave rat-infested Portakabins? Did any staff want to hold onto the Portakabin rather than move? Does evidence suggest that complaints and teething problems were resolved as time passed?

219. **Dr Mallon**: This is the second of the Pathfinder pilot projects. The first involved the relocation of Central Personnel Group (CPG) from Rosepark House in Stormont to Royston House in the centre of Belfast. I was part of that move, and NISRA was responsible for the full evaluation.

220. On that occasion, the health check revealed many issues with which we were unhappy. My motivation for becoming involved in the evaluation was that I thought it might provide a good opportunity to ensure that our working environment improved. NISRA performed both the initial health check and the evaluation in Royston House and learned a great deal.

221. Therefore, there is a Northern Ireland model — the first Pathfinder project on the relocation of CPG to Royston House — that included both a health check and, subsequently, a more formal evaluation. Many of the teething problems will be resolved. Common sense suggests that, once the IT problems are sorted out, the views on many other aspects of the working environment will become more positive. However, we may find that other factors have crept in. The evaluation may show that, although IT problems have been rectified, other factors have emerged.

222. **The Chairperson**: Will NISRA examine the experience of other regions, John? Is it intended to provide comparative analysis?

223. **Dr Mallon**: Some comparative information exists in studies that have been undertaken in England. Where possible, we will include comparative data in order to put our findings into context and provide comprehensive information.

224. **Mrs McEwan**: We are developing a detailed questionnaire that will be issued to all staff in September and will include key benchmark questions. One question will ask about levels of overall satisfaction with the accommodation. We will draw direct comparisons with the experience of Scottish Enterprise, HM Treasury and, locally, with the relocation of CPG to Royston House.

225. **Mr F McCann**: As you said, Chairperson, the second evaluation will gauge the effects of relocation best and will pick up on many factors.

226. Open-plan offices are not new: I have experience of several examples. In most cases the initial reaction of staff is positive and they consider that the open plan makes for good working relationships. However, in some cases, dividers between desks are called for, and arguments develop over infringements of territory.

227. The issue of privacy plays a big part in that. I am not against change and I believe that people must move on. However, it is difficult to rectify any problems when an open-plan situation is developed, because people are stuck with it. Are managers included in the open-plan arrangements, or are they stuck away in offices?

228. **Dr Mallon**: Everyone, even the most senior manager, is included in the open-plan arrangement. In the Civil Service, many junior staff already work in open-plan accommodation, while managers work in offices. The big change for managers lies in moving from their offices to an open-plan working environment where the rest of the staff work. That is a big change of environment for senior managers. In contrast, many junior staff already work in open-plan accommodation, although the full range of open-plan facilities are not available to them.

229. **Mr F McCann**: What does that mean?

230. **Dr Mallon**: That means that there are none of the necessary break-out areas. Staff work in a large open-plan room with desks, but there are no meeting areas; nor are there any private rooms to work in if peace and quiet is required to carry out detailed work. Open-plan accommodation provides a range of other benefits — it is not just a large room that is filled with desks.

231. **The Chairperson**: I visited Clare House; perhaps the Committee will also get the opportunity to do so. There is a conference space there, which has a huge glazed area. Therefore, although it is private enough for people to do their work, at least the concept of open plan is preserved.

232. **Mr F McCann**: Will the Committee be able to see that?

233. **The Chairperson**: We are trying to make arrangements for that. The visit would have to coincide with a working day and with the Committee's agenda.

234. **Mr F McCann**: Will the Committee hold its meeting in an open-plan area?

235. **The Chairperson**: Yes.

236. **Dr Mallon**: Why not? It would be a bit expensive to knock some of the walls down in this Building.

237. **Ms J McCann**: I realise that the health check review is only at its initial stages. However, owing to the fact that it is a pilot, and given the wider implication that the review has for other projects, will there be a mechanism to establish whether it represents value for money in the other evaluation that you mentioned?

238. **Dr Mallon**: NISRA will not be involved in establishing whether the project represents value for money. A wider valuation, in which we could have an input, would achieve that.

239. **Ms J McCann**: Would you recommend such an approach?

240. **Dr Mallon**: It is a good idea to quantify, where possible, the benefits of the move. A major part of our work is examining benefits realisation and, where possible, trying to quantify those benefits. A formal cost-benefit analysis is more difficult to carry out but, as part of our work, we try to assess the benefits of the move.

241. Much of the work in which NISRA engages is to establish baseline information before a move, and then to compare the conditions before with those after. That has not been possible with the pilot project, but, in many of its other projects, NISRA is trying to do what you suggest: to obtain a baseline position before a move and measure as many variables as possible, then, after the move, measure the same variables and assess any benefits. Monetary value is then attached, where possible, to those benefits.

242. That suggestion is worthwhile, and requires a lot of baseline benchmarking information to be gathered. That is part of NISRA's strategy in those evaluations, so that it can compare the before with the after to try to quantify any gains.

243. **The Chairperson**: Thank you, John and Amanda; that was very interesting. The report makes valuable reading, and the Committee looks forward to your next exercise.

Wednesday 20 June 2007

PFI Projects

Members present for all or part of the proceedings:
Mr Mitchel McLaughlin (Chairperson)
Mr Mervyn Storey (Deputy Chairperson)
Mr Roy Beggs
Dr Stephen Farry
Mr Simon Hamilton
Mr Fra McCann
Ms Jennifer McCann
Mr Adrian McQuillan
Mr Declan O'Loan
Ms Dawn Purvis
Mr Peter Weir

Witnesses:

Mr Kieran Donnelly Mr Brandon McMaster	Northern Ireland Audit Office

244. **The Chairperson**: I welcome Committee members and Audit Office officials to the reconvened meeting of the Committee for Finance and Personnel. Hansard will record proceedings, and the transcript will be published. Please turn off mobile phones — do not leave them on a silent setting — as they interfere with the recording.

245. I welcome Mr Kieran Donnelly, assistant auditor general in the Audit Office's financial unit, and Mr Brandon McMaster, director of value for money. Thank you for attending. Will you make your presentation, please?

246. **Mr Kieran Donnelly (Northern Ireland Audit Office)**: I am in charge of the financial audit division of the Northern Ireland Audit Office. The division certifies the accounts of all central Government bodies. My colleague, Brandon McMaster, is in charge of our value-for-money work on public-private partnership (PPP) initiatives. We have a small unit, which was set up about four years ago, that specialises in private finance initiatives (PFI). One member of the team has just returned from a two-year secondment to the National Audit Office (NAO), which has a much larger unit dedicated to PFI issues.

247. The Audit Office is completely independent of Government. It is neither for nor against PFI initiatives — it has no axe to grind. The Audit Office's role is not to question the merits of policy objectives but to report to the Assembly on the value for money of individual PFI projects. To date, the Audit Office has examined 13 projects. Brandon McMaster will touch on some key lessons that have emerged from that work.

248. PFI initiatives have been operating for much longer in Great Britain than in Northern Ireland. The first projects began in about 1992, and, since then, a rich repository of good-practice guidance has been collected. To give the Committee an insight, I have made copies of the House of Commons Committee of Public Accounts twenty-eighth report from 2002-03, 'Delivering better value for money from the Private Finance Initiative'. The report will prove useful, as it brings together the lessons that emerged from 20 Public Accounts Committee investigations and NAO reports. The report covers up until 2003, and further reports have been published since then.

249. Those lessons are neither complex nor technical; they make sound common sense. I will draw Committee members' attention to key themes. First, there must be sufficient competition in PFI deals. Some of the early deals had only one bidder, or negotiations were entered into with a preferred bidder too early in the process.

250. The second element is to ensure that there is tight control over consultancy costs. The third point is to ensure that the public sector shares in the benefits of successful deals, of which there have been many, particularly at the later post-construction stage. Much of the risk with PFI is at the construction stage. Once projects get beyond that, they can be refinanced at more attractive funding rates, which maximises the return to shareholders.

251. The Committee of Public Accounts at Westminster and the National Audit Office have been at the forefront of ensuring that the taxpayer gets a share of refinancing gains. That was one of the big lessons that were learned during earlier phases of projects. It is now standard in PFI deals that there is a clause that stipulates that any refinancing gains are shared with the public sector, usually on a 50:50 basis. That is a key point.

252. A further key point that has emerged from previous Public Accounts Committee work is the need

for public-sector staff to have the necessary skills. It is important to emphasise that the skills that are required at different stages of PFI deals can vary greatly. At the early negotiating stage, there is a premium on negotiating skills and on ensuring that those who represent the public sector can match the sophisticated deal makers in the private sector. When a deal progresses to the operational phase, the premium is on good, professional contract management. In the past, the public sector has been lacking in that skill.

253. It is important to ensure that proper contingency plans are in place in deals, particularly if a contractor fails to deliver on performance or runs into financial difficulty. The experience of some of the big PFI deals in Great Britain is that they are "heavily geared" — financed mainly by loans rather than by equity. Therefore there is little margin for error.

254. One of the lessons from Great Britain has been that the public sector should not bail out contractors who are in trouble. The recommendation of the Committee of Public Accounts at Westminster is that if the risks are borne by those who hold equity on the private-sector side, they should take the hit. There have been cases in which contractors approached the public sector for more money, which, ultimately, was not provided. They then had to approach shareholders, and more equity was invested. There are greater risks in highly leveraged deals, often resulting in the contractor's getting into financial difficulties. It is important that contingency plans are in place from the outset.

255. The issues that have emerged from PFI deals are similar to the audit issues that were experienced during privatisation in the 1990s. They are not new, nor are they unique to PFI. The same issues are found with other forms of procurement.

256. I will now hand over to Brandon McMaster, who will discuss lessons that have been learned from the Northern Ireland experience.

257. **Mr Brandon McMaster (Northern Ireland Audit Office)**: The Northern Ireland Audit Office's approach to PFI is to follow the NAO's approach, although we will also look further afield to examine best practice. It is not necessary to reinvent the wheel, but some lessons have emerged from the value-for-money work and reports. There are five key points that I wish to discuss. The first relates to assessing the demand for a service.

258. Our report highlighted an issue concerning the Pathfinders schools projects, particularly at Balmoral High School, as evidence showed that the project should not have gone ahead. It is therefore important, both in PFI and in conventional procurement, to ensure that demand is correctly assessed. With Workplace 2010, for example, any demand for office accommodation and requirements must be well thought through and firmly established.

259. A further aspect of demand is the need to build in flexibility, and the renal unit at Antrim Area Hospital — although a small project — is a good example of that. An increase in demand had been anticipated and, when it materialised, flexibility in the contract enabled the provision of additional units.

260. Kieran touched on profit sharing and clawback. The classic example is the car park contract for the Royal Victoria Hospital. The hospital's share of profits was limited to £25,000 plus, after four years — £15,000 of excess between the profits forecast and those achieved. In that case, it was roughly twice the forecast amount, which is a very poor return for a public-sector concern.

261. Moreover, there is the issue of the transfer of assets to the private sector. Robust clawback arrangements should be built into a contract so that when sites are developed or properties sold on, the public sector gets a fair share of the relevant excess profits and super-profits. Clawback must be based on the proper market value of assets, and Land and Property Services has a role to play. The market is increasing and, importantly, there is scope to introduce an additional independent commercial valuation.

262. The third aspect relates to the wide variation in the cost of consultants. At the time of the Pathfinder report, we reviewed the Department of Education's evaluation, and Department officials recognised that consultancy costs had to be — and could be — driven down. On the projects examined, we found a range of consultancy costs from 4% to 10% or 12% of the capital value. It is important that there be competitive tendering for the appointment of consultants, and that must take into account not only the quality of the advice but the available expertise. Costs should be monitored throughout a consultancy, and the reasons for any increases must be well documented.

263. Furthermore, the potential for conflict of interests must be highlighted. There was such a conflict with the Antrim Area Hospital renal unit, but it was handled well.

264. That was a slightly different conflict. After a merger, the trust's accounts auditors found themselves auditing the accounts for which they would be expressing an opinion on the balance-sheet treatment of the assets and advising the bidder.

265. **The Chairperson**: Is that an example of strategic planning?

266. **Mr McMaster**: That was an unusual situation that arose from two companies being involved in a merger. However, the overlap was identified and the problem was remedied. It is important that such conflicts of interest are identified and dealt with appropriately.

267. The fourth issue relates to post-project evaluation. Once a process has begun and a project has started to deliver, it is important to review it and determine that the objectives that were set for it are being met. Planning for benefits is a key aspect of a project, and it should begin at the very start. We must ask whether the benefits that were planned are being delivered. It is vital that the project be reviewed to ensure benefits realisation.

268. It is important that there are systems in place to monitor benefits realisation and to consider any lessons that can be learned. Our experience of the projects that we have looked at to date — and not only in relation to PFI — is that the system is not very good at post-project evaluation.

269. The other aspect of benefits realisation is that the gateway review process should be applied to all major programmes and projects. That is an independent review that is carried out at various stages through the process to ensure that the programme or project is on track. Benefits realisation is part of the gateway review process.

270. Kieran mentioned managing contracts, and it is important to have the right people with the right skills to take projects through. For example, there has been a positive report of the PFI process that was used in the electronic libraries project. That project was successful because it involved the right people with the right skills who could identify needs. It was also identified that there was no in-house PFI expert, and a suitably experienced consultant was engaged to guide the process.

271. It is important to look at managing contracts as a partnership. Given that any project is a long-term commitment, there must be partnership between the two parties if its full benefits are to be realised. That means that both parties must be open in sharing information and so forth. Of course, that is underpinned by having the right contractual framework so that everyone is clear about their roles and responsibilities, how contracts and performance will be monitored, how disputes are resolved, and how changes in specification or service are dealt with.

272. **The Chairperson**: Thank you very much, Brandon. When I was introducing you, I should have acknowledged that I appreciate that you responded to the invitation to come here at short notice.

273. **Mr Storey**: I also welcome the witnesses and thank them for their input. Brandon referred earlier to the transfer of assets and any risk that might be involved. If the public sector asks for a contract to be transferred and the contract is subsequently terminated, what is the risk for the public sector? Is a gateway review now compulsory in all tenders?

274. **Mr McMaster**: Gateway is compulsory for all major programmes and projects; there is Department of Finance and Personnel guidance on it.

275. We look closely at any programme or project to ensure that it has been applied properly throughout.

276. On the matter of the transfer of assets, is the member referring to a contract that is terminated part way through? Are you asking whether the public sector retains an interest or can get something back once assets have been transferred?

277. **Mr Storey**: Yes.

278. **Mr McMaster**: That would have to be covered in the contract. There should be conditions that deal with termination and how the assets would be valued and on what basis they would transfer back, such as market value or some lesser consideration. If a valuation is made at the time, it must be independent in order to determine the proper assessment, which should not take into account the fact that the buildings are occupied by the public service. That can inflate the true market value.

279. **Mr McQuillan**: If an asset is sold on by the operator, is there a possibility of clawback?

280. **Mr McMaster**: Good practice suggests that clawback could be built into a contract should an asset be sold or transferred by a developer. That is best practice, and it is there to protect the interest of the public sector in case a development or some other gain arises later.

281. **Mr Donnelly**: It is not just a matter of having a clawback provision; the fine print must be sorted out legally. Our experience of privatisation is that even though there has been a clawback mechanism, in practice it has not worked as well as it should because the fine legal detail has not been thought through fully at the start.

282. **Mr Beggs**: It is difficult to assess what will happen at the end of a contract and any risk that might be involved. Under Workplace 2010, substantial

numbers of properties will transfer. How can the risk of a monopoly developing at the end of a contract be assessed and how do we ensure adequate competition for a subsequent project? Is there a high risk of a monopoly developing? That must be managed at the very least and the assets returned to public ownership at the end of the contract. That could minimise the risk, provided that the running of the contract was appropriate — roofs were not allowed to deteriorate, for example.

283. Is it accepted that there are major risks associated with such projects? We are, after all, entering unknown territory. We have asked for research on the matter, but there appears to be limited experience, even internationally. I would be interested to hear comments on the risk element.

284. **Mr Donnelly**: That is an extremely difficult area because none of the deals has yet reached that stage. As for the likelihood of a monopoly, there is a developing market in PFI providers. At the end of the PFI process, there were fewer players in the market, although that should expand over time. It is important that planning begin well before — perhaps four or five years before — the contract's expiry date, and thought must be given to stimulating competition in the market. That is vital. It is very difficult to contemplate the various scenarios that might pertain 20 years ahead.

285. Deals are constructed in different ways. Some deals contain an option for the public sector to buy the asset at a discount. That implies that the public sector has more than paid for the asset over its life. Other scenarios offer an opportunity to buy an asset at market value or an option for both parties to walk away from a deal. Such provisions require a great deal of thought at the outset of a deal and what happens at the end of a contract. It is also relevant to the accounting treatment and whether an asset is on the books of the public sector or a private-sector consortium.

286. **Mr McMaster**: Four or five years before the end of a contract, one should try to stimulate the market in some way. It is a case of going back to basics and considering the options. Part of that involves stimulating the market to ensure that there is competition and that a monopoly does not arise. Benchmarking or market testing should be built into soft services, for example, throughout the contract to ensure continued value for money. All those aspects need to be carefully thought out and applied.

287. **Mr Beggs**: When I was a member of the Committee for Employment and Learning in the previous Assembly, the social security offices were upgraded and the employment agencies were incorporated. In effect, we are proposing to sell off updated and modernised offices. Are there other examples of selling off state-of-the-art offices or modernised properties? I am at a loss about why we would do that.

288. **Mr McMaster**: I am not aware of any such instances. You referred to the apparent lack of international data, and it has certainly been difficult for us to identify other cases. However, we are aware of a relevant example in New South Wales in Australia. Essentially, guidance on the transfer of office accommodation has been pulled together. I do not know the details, but if it would be helpful, we could provide you with a summary or paper on that example.

289. **Mr Beggs**: That is the biggest PFI deal that I have heard of, and the sale of the Civil Service estate is probably the biggest that will ever happen in Northern Ireland. There is a problem when PFI deals are too small; might there be a problem if they are too big? Would there be advantages in splitting a deal in two to have two finishing dates so that there would automatically be competition?

290. **Mr McMaster**: It is difficult for us to comment without having seen the appraisals, but that should be considered.

291. **The Chairperson**: How much research and information are available on the international experience? That has featured several times in the Committee's discussions, and I personally have an interest.

292. **Mr McMaster**: The United Kingdom has been the leader in PFI. The market has developed here, and it is where the best-practice guidance tends to originate. However, Australia and New Zealand are starting to develop their own best practice. The other instance of best practice that I am aware of relates to the Department of Treasury and Finance in the state of Victoria.

293. Those departments have developed good-practice guidance on contract management and an accredited course in conjunction with one of the Melbourne universities. The course is available to contract managers in the public sector so that they can build their knowledge and experience. Indeed, it is almost mandatory for them to attend such a course. That is an example of good practice.

294. When other matters arise, we look to other audit institutions such as the Office of the Comptroller and Auditor General in Dublin or Audit Scotland to pick up some of their practices or examine issues that they have identified in projects. For example, the Office of the Comptroller and Auditor General in Dublin studied a project in the Beaumont Hospital that

is similar to the Royal Hospital's car parks scheme. Both hospitals faced a similar situation in which excessive profits were being made from car parking.

295. **The Chairperson**: Roy Beggs referred to the scale of this project: selling off the entire estate, some of which is of a reasonably recent vintage.

296. The end-of-contract scenario was a concern for the Committee in its initial considerations. It is difficult to get a handle on the way forward; for example, the initial capital asset calculation, which is the price that is put on the property, may be an issue. Dealing with a virtual monopoly at the end of the contract is the conundrum — that is probably the gentlest word that I can find — that we face. Are such issues strategically modelled so that people can be reassured?

297. **Mr McMaster**: I am not aware of any such model, and, as Kieran said, few, if any, PFI contracts have reached their natural end; therefore there are few practical examples to go on. However, I am happy to consider the New South Wales models in more depth.

298. **The Chairperson**: It would be good if you could, as we might need to follow through on that.

299. **Mr Donnelly**: It is important to have absolute clarity on the end-of-contract arrangements before contract signature. Getting clarity is often left to the tail end of the negotiations, and can sometimes continue after contract signature.

300. **The Chairperson**: The Committee will have its own take on that. Can I assume from that answer that the Audit Office has put down its marker?

301. **Mr Donnelly**: I am sure that we will in our future reports.

302. **Mr Hamilton**: Judging by the Audit Office studies and those that have been done elsewhere, how do PFI and traditional procurement compare on meeting budgets and time targets for completion of construction? Have results been consistently better through PFI contracts than through traditional procurement or vice versa? Do any points stand out consistently and prove categorically that, more often than not, PFI produces better results than traditional procurement?

303. **Mr Donnelly**: It is difficult to generalise, but experience here and in Great Britain tells us that the private sector tends to be good at getting construction to time and budget. Indeed, the rationale for PFI in the first place was that many public-sector construction contracts were taking a long time and involved cost overruns. Under PFI, the risk of overruns or cost escalation is firmly with the contractor rather than with the public sector. The risk is passed to the private sector.

304. Much thought is given to performance standards when completing public finance initiative deals. It is important that deals have a system of rewards for good performances and penalties for performances that are not up to scratch. Those arrangements are a little more formal in PFI contracts than in contracts that are undertaken by the traditional procurement route.

305. **Mr McMaster**: For example, on examining the Pathfinder education projects, we found that PFI tended to take longer to bring deals to market. However, there was a notable difference in the construction and delivery of the project, which was much speedier when undertaken as a PFI project. That is because the contractor does not get paid until the assets have been provided — that is an incentive.

306. In a 2003 report by the Committee of Public Accounts at Westminster, concerns were expressed — which have been expressed again — about the number of PFI projects for which penalties were imposed. In a sample of projects that were examined by the National Audit Office, issues relating to performance had arisen in almost 50% of them. The PAC's conclusion was that the public service was not getting the performance to which it was entitled. To remedy that, there should always be break points during which the quality of service delivery can be market-tested. That does not preclude an in-house bid being made. In a recent NAO report, several projects were identified for which an in-house bid was made in that way. I do not know whether that was successful.

307. **Mr Donnelly**: I should add that there is a distinction between the theory and the practice of performance penalties. It is one thing to include such provisions in the contract and another to exercise them. The experience in Great Britain is that penalty clauses might not have been exercised to the extent to which they should have been, which shows the importance of good contract management. Whether the contract is undertaken by PFI or by conventional procurement, underperformance by a contractor must be actively addressed.

308. **Mr Hamilton**: It was found at times that, because of the length of the contract and the need to work with a PFI operator, enforcement of penalties was not conducive to a good, long-term working relationship. Was that ever a reason for penalties not being enforced?

309. **Mr McMaster**: It is difficult to comment on that. In the renal unit at Antrim Hospital both parties were committed to delivering a good public service.

Arrangements were set up to allow both parties to be represented on an oversight board so that issues that had arisen during the contract could be resolved.

310. Making an up-front capital payment for assets reduces the unitary payment. Therefore there is a risk that penalties for poor performance may be less punitive. When the contract is drawn up, the public sector's position must be made clear.

311. **Mr O'Loan**: You mentioned the need to build in flexibility. The two Government property initiatives are Workplace 2010 and guidance on the location of public-sector jobs, one of which is at a more advanced stage than the other. Let us suppose that there is significant political interest in the decentralisation of public-sector jobs. We have been told that the advantage of Workplace 2010 is that costed flexibility has been built into the contract.

312. Nevertheless, we are told that the thrust of Workplace 2010 is to create a small number of large buildings. A recent written response to the Committee from those behind Workplace 2010 talks about putting each Department under one roof. Various suggestions have been made, but the main thrust of Workplace 2010 is central provision. Flexibility may be built in, but it runs so contrary to the central thrust of the policy that the cost of achieving flexibility, although attainable, may be prohibitive. If we attempt to go down the path of decentralisation, how can we be assured that Workplace 2010 will not be so rigid as to be undoable?

313. **Mr McMaster**: Without knowing the detail and without having looked at Workplace 2010, it is very difficult to comment. We cannot comment on a policy —

314. **The Chairperson**: Have you not looked at Workplace 2010?

315. **Mr O'Loan**: You cannot assess value for money without studying the policy's objectives.

316. **Mr McMaster**: Given the size of the contract, it is inevitable that we will examine Workplace 2010, and when we do —

317. **Mr Beggs**: After the event.

318. **Mr McMaster**: Yes, after the event. It will have to be —

319. **The Chairperson**: That is why all the eggs are in one basket.

320. **Mr McMaster**: When we come to look at Workplace 2010, we will examine how the proposed flexibility is being priced and what that means.

321. The contract should be flexible to deal with a change of policy. A price would be built in, so the Committee's concern would be how that risk is being priced in the bidder's financial model. A value-for-money judgement will have to be made to take into account not only quantitative but qualitative factors.

322. **The Chairperson**: Given the information that you have provided on contract management and the initial negotiation, it is difficult for the Committee to feel reassured.

323. **Mr McMaster**: We cannot provide the Committee with an assurance, not having looked at Workplace 2010.

324. **Mr O'Loan**: I agree with you, Chairperson.

325. From my limited experience in local government, I know of instances in which the market value that is obtained is way ahead of Valuation and Lands Office figures. That may be because the market is buoyant at present, but that has been my experience of valuations.

326. How can we be confident that important public assets are being valued properly?

327. **Mr McMaster**: As I said earlier, it is vital to have independent valuations, of which the Valuation and Lands Agency is one source. Considering the nature of the assets and the buoyancy of the market, however, it would be best practice to have a further independent commercial valuation.

328. **The Chairperson**: Is that codified anywhere?

329. **Mr McMaster**: I do not think so. We are working on a report on land deals — I cannot say too much about it until it is finished — but I suspect that that will be one of the recommendations that will come out of it.

330. **The Chairperson**: Affordability is another issue. Conditions can change after a contract has started, and we have discussed the possibility of a monopoly at the end of a contract. When are the principles on affordability laid down?

331. **Mr McMaster**: Affordability should be assessed from the outset. One must know that one can afford the deal — not only in the short term, but in the long term. There is evidence that affordability was not thought through properly in some projects in Great Britain, and public-sector bodies have found themselves no longer able to meet commitments to the project or else they lack the flexibility to do so. The Audit Office is mainly concerned with ensuring that the value for money of each project is judged separately.

332. The previous Committee for Finance and Personnel highlighted the need for greater transparency in the commitments that were entered into and in judgements on affordability. We tried to emphasise that in the 'Reinvestment and Reform: Improving Northern Ireland's Public Infrastructure', which was published in December 2006, and in a short report that was included in the financial volume approximately two years ago. In those reports we expressed the need for greater transparency — as requested by the Committee — in the commitments to PFIs and greater transparency in borrowing in the reinvestment and reform initiative. A judgement should be made on its long-term affordability.

333. **Mr Beggs**: Despite the need for transparency, I know that some aspects of the finalisation of contracts are commercially sensitive, and therefore we do not have access to them. However, the bidding should be in the public domain for the sake of transparency, so that any flaws can be drawn out and corrected.

334. Should the Committee not request a copy of the bidding terms? Whether a 20-page or a 100-page document, the Committee should have access to the terms that are being bid against. There should be transparency — the more flaws we spot, the better. Once a contract has been signed and agreed, it is too late to ask questions: one must live with the consequences. There is no point in the Committee's waiting five years for an Audit Office report to tell us that it was a pity that we did not do A, B and C. I suggest that we ask for a copy of the terms that the contractors are bidding against.

335. **The Chairperson**: The Committee should map out what it does next — on which I have my own thoughts — although I appreciate your suggestion.

336. **Ms J McCann**: I am sorry for missing the presentation, but I read the paper earlier. I am interested in the affordability issue.

337. What role did the Audit Office have on affordability?

338. **Mr Donnelly**: In a sense, the Audit Office does not have a role; it is up to the Department of Finance and Personnel to determine affordability. It is not just a matter of affordability at micro level or project level; it involves the collective projects. Brandon spoke earlier about the financial commitments of the PFI system. We have brought together the figures and the sums involved in the financial commitments that have been entered into, and we will continue to bring those figures to the Assembly's attention.

339. **Mr McMaster**: We are encouraging the Department of Finance and Personnel to be more transparent in providing information to the Assembly. Guidance was published as a result of the report prepared by this Committee's predecessor, and one of the issues that we identified was that the guidance was not being complied with. We encourage disclosure, and we will do our bit to ensure that the guidance is complied with. However, it is up to the Department to ensure that.

340. **Ms J McCann**: Mr O'Loan mentioned the valuation of buildings. Who carries out such valuations, and when are they carried out?

341. **Mr McMaster**: As the public sector valuer, the Valuation and Lands Agency (VLA) has a role to play. However, a second independent valuation from a commercial valuer is necessary in major deals. Valuations should be carried out as soon as possible and updated as negotiations progress.

342. One can also protect the public interest through a clawback arrangement. If a valuation is wrong at a certain point, or a site's value increases when developed or sold, the clawback provisions, if robust enough, should protect the public purse and enable it to get its fair share of the value.

343. **Mr Donnelly**: In any deal, it is important that surplus assets are identified and separated at the outset, and in a volatile property market it is essential that the valuation be carried out as close to the completion of the deal as possible. The valuation must be bang up to date.

344. **Dr Farry**: How does the public sector protect itself or achieve sufficient flexibility to take into account changing political circumstances or priorities and major technological change? Much can change over 25 years.

345. **The Chairperson**: We could all be back on bicycles.

346. **Dr Farry**: The huge IT revolution of the past 25 years has had major implications for how the Government do business. Take schools, for example: I do not particularly want to get into a discussion on Balmoral High School, but it is an example of how rapidly changing demographics can affect pupil numbers. How do we avoid locking ourselves into long-term contracts whereby, because of a change in circumstances, we can end up paying contractors for buildings that are surplus or only half-used?

347. **Mr Donnelly**: That is a risk, especially with school projects. It has been notoriously difficult to make long-term projections for schools, and that was

always the case with conventional school projects, as well as with PFI projects. There have been difficulties with projected figures in other areas, too. For example, in one case, the Home Office signed a PFI deal assuming that the projected staff numbers for the new building would shrink because of efficiencies, different working patterns and outsourcing.

348. The exact opposite happened — numbers increased. There is great risk in projecting future demand, which underlines the importance of building in flexibility from the outset and having break points.

349. **The Chairperson**: What is the process that identifies PFI as the preferred procurement method before contracts are signed? Is there an objective assessment of the business case, or are we relying on the Office of Government Commerce gateway process to review the contract subsequently?

350. **Mr McMaster**: There should be an objective assessment beforehand; the Treasury guidance that was produced following 2003's 'PFI: Meeting the Investment Challenge' — the guidance came out two years later — was adopted by the Department of Finance and Personnel and applies to Northern Ireland Departments. There is an objective assessment of the best route to pursue, whether that turns out to be PFI or conventional procurement. There is guidance.

351. **The Chairperson**: In your limited experience, have you established that that is the practice?

352. **Mr McMaster**: We have no details of Workplace 2010, so I cannot say.

353. **The Chairperson**: How do we assess value for money, particularly in long-term contracts? Uncertainties can pop up at any time; it must be very difficult.

354. **Mr McMaster**: It is. Judgement on whether value for money has been achieved using PFI has to be made over a long period. Producing a full business case gives an indication, and at that stage some judgements can be made about whether a project offers value for money. That takes in both qualitative and quantitative factors, but it is only as a project progresses and one sees the outworking performance of a contract that it is possible to make a full judgement.

355. **The Chairperson**: Taking a theoretical approach to contracts such as Workplace 2010, how often would you run a value-for-money assessment?

356. **Mr McMaster**: With soft facilities management services, there should be a benchmarking or market testing every five years; that would be a judgement on whether value for money is being achieved.

357. **The Chairperson**: Should we ensure that that is built into the project management from the outset?

358. **Mr McMaster**: Yes.

359. **The Chairperson**: Thank you both very much, particularly for coming at short notice. This afternoon has been very helpful; if our further discussions give rise to follow-up questions, I hope that you will not mind if we write to you about them.

360. **Mr Donnelly**: We will be very happy to deal with them.

Appendix 3

Written Submissions

Appendix 3 – List of Documents

Written Submissions

- DFP briefing paper on Workplace 2010 and Location of Public Sector Jobs.
- NI Audit Office submission.
- National Audit Office submission.
- NI Courts Service submission.

Follow up Information

- DFP paper of 15 June 2007, including:
  - List of Workplace 2010 Estate;
  - List of Residual Estate;
  - Workplace 2010: Assessment of 2003 – 2006 PAC Reports;
  - Draft summary of consultation responses on Guiding Principles on Location of Public Sector Jobs.
- DFP paper of 18 June 2007.
- Extract from DFP's Project Initiation Document – project organisation structure.
- DFP:
  - Transferred estate and current occupancy at April 2007;
  - Transferred estate, current and future occupancy and capacity after refurbishment at April 2007;
  - DFP response to Committee request for information on categorisation of Workplace 2010 properties.
- NI Audit Office response to Committee questions, 26 June 2007.

Workplace 2010
Location of Public Sector Jobs

A Briefing Paper for the
Committee for Finance and Personnel

prepared by

Chris Thompson
DFP Director of Corporate Services & Senior Responsible Owner for Workplace 2010

Workplace 2010

Issue: **Update on the Workplace 2010 programme**

Recommendation: **That the Committee notes progress to date and provides a view on the key issues.**

Background

1. The Department of Finance and Personnel (DFP) supported by the Strategic Investment Board (SIB) initiated a Strategic Development Plan for the civil service office estate in April 2004. The plan was intended to address some urgent accommodation problems within the estate. It was the latest in a number of reviews most of which had looked at short term pragmatic solutions but, crucially, each stopped short of a longer term estate management and procurement strategy.

2. The study looked at the office estate managed by DFP which comprises about 200 buildings the majority of which are for administrative use. Specialist buildings were not considered. The costs of running the estate are in the region of £80m per annum. The findings showed very clearly that:

- Much of the estate was in a poor state of repair – of the 70 buildings in the Greater Belfast area, for example, there were about 20 identified for early disposal as repair was becoming uneconomic or they were no longer fit for purpose;
- Lack of funding meant that there was a significant backlog of outstanding maintenance (about £21m for the core properties in the transferring estate) which added to the deteriorating condition of the estate;
- The estate was poorly utilised and inflexible. Buildings were highly cellular creating very inefficient use of space. In Belfast the average space per person was typically 16 – 18 square metres compared with good practice standards of 7 – 12 square metres. The estate was also made up of a few large properties and a considerable tail of small buildings adding to the problem of inflexibility. In Belfast, for example, 30% of the properties equated to 70% of the floor space. This meant that Departments were often split across a number of locations – DFP is currently accommodated in 20 different sites.

- The estate in its current state could not support modern and efficient delivery of services. The civil service reform agenda includes the introduction of shared services, innovative technology and electronic records management all of which require a very different working environment to optimise the benefits that can be realised from the modernisation programme.

3. The Strategic Development Plan drew on developments in the public and private sector and emerging best practice in terms of efficiency and new ways of working. The optimum use of space was best achieved by the introduction of open working which, supported by innovative design and technology, could drive change and efficiency through new ways of working. By adopting best practice we could, through a programme of refurbishment and rationalisation, reduce the Belfast portfolio by about half – equating to a 20% saving on floor space.

4. In the absence of funding we had to look at the various procurement options that were available to us. An outline business case, completed in the summer 2005 examined a range of options including a Private Finance Initiative (PFI), mixed and traditional procurement. It concluded that a total property PFI demonstrated best value for money as it was some £200m cheaper than a traditional procurement. This would involve the asset transfer to a Private Sector Partner (PSP) who would be responsible for the refurbishment, maintenance and servicing of the estate for the lifetime of the contract in return for a unitary service charge. The outline business case was approved by DFP Supply in October 2005 and it was on that basis that we moved forward with the procurement.

Scope of Contract

5. In developing the contract we concluded, given the uncertainties around headcount, dispersal and the Review of Public Administration, that we should phase the contract. The phasing meant that we could retain a small residual estate which would give us some flexibility in the event of decisions on dispersal.

6. The main components of the contract included:

- Transfer of 77 buildings about half of which are in the Greater Belfast area, 7 large regional offices and the Jobs and Benefits network;
- Major refurbishment of 15 core properties requiring private sector investment in excess of £100m;
- Introduction of new accommodation standards;
- Disposal of surplus properties;
- Life cycle replacement, maintenance and servicing of the transferred estate.

7. The transferred estate would account (in terms of floor space) for about three quarters of the entire DFP estate and impact about 18,000 staff. It would generate a capital payment that would release significant spending power into the Northern Ireland block. The total value of the contract was estimated to be in the region of £1.5bn.

Procurement

8. The procurement process commenced in November 2005 with the issue of a notice in the Official Journal of the European Union. By June 2006 we had short listed four bidders who were invited to submit proposals on the Invitation to Negotiate (ITN). The bidders submitted detailed proposals in early November and it was clear from the quality of the bids that we had generated a very competitive procurement and there was an excellent opportunity to negotiate a very good value for money deal. Land Securities Trillium and Telereal were recently announced as the two bidders who had been successful at ITN. However we made it very clear to the successful bidders that decisions on proceeding to BAFO would be dependent on political approvals by the new administration.

Programme for Government Committee

9. The Committee considered Workplace 2010 as one of its priorities for the new Executive and, whilst supporting the need for a modern efficient estate, the report outlined some concerns and asked that the contract should contain provisions to allow for;

- The full realisation of benefits such as profit sharing and claw back;
- Tight control of premiums and surcharges to the unitary charges;
- No compulsory transfer of public sector staff to the private sector; and
- The accurate evaluation of the assets.

It also stated that the contract should not act as a constraint on any future policy on public sector job location. We have committed positively to addressing these issues positively on the basis that the final contract can take them all on board.

Key Issues

10. As things stand there are a range of key issues on which decisions are required before we proceed with the competition. The details are set out below and an initial view from the Committee on these would be very welcome.

Dispersal

11. The Workplace 2010 contract was instigated as a mechanism for upgrading the civil service office estate and introducing more efficient estate management arrangements and as such was never intended to drive dispersal. However from the outset there has been significant political interest in the issue. The Programme for Government Committee, for example, asked specifically that the new Executive should develop and implement a policy on the dispersal of public sector jobs.

12. The recent consultation on the Guiding Principles for the Location of Public Sector Jobs in NI also highlighted dispersal as a key theme. An update on this is provided in more detail at Annex A and shows that a significant number of respondents, mostly from West of the Bann, argued that a pro-active policy of dispersing public sector jobs from the Belfast area should be adopted by the Executive. Other respondents, mostly from the Greater Belfast area, acknowledged that a well managed relocation policy could bring a more even spread of benefits of public sector employment opportunities across Northern Ireland but also emphasised the critical relationship between the long-term success of Belfast and the success of Northern Ireland Plc and pointed to continued areas of deprivation within the Belfast area.

13. The analysis of the consultation responses is still work in progress. However, in light of the feedback and representations from the various parties the Department is very clear that the Workplace 2010 contract, in the first instance, must be flexible enough to respond quickly and efficiently to any future policy directive from the Executive. Secondly the framework provided by the guiding principles on location must be sufficiently robust to facilitate any future decision making processes.

14. In relation to Workplace 2010 we will be asking the bidders to cost flexibility and to ensure that Workplace 2010 will facilitate rather than restrict the movement of business. By doing so, we are confident that we can negotiate the price under competition thus securing best value. The provision of accommodation and the disposal of properties will also be handled more efficiently and this will provide the opportunity to accelerate the implementation of any dispersal decisions.

Value for money

15. The outline business case, completed in 2005 demonstrated very clearly that a PFI solution provided best value for money compared to other types of procurement. In moving forward our objective has consistently been to optimise the capital payment in terms of the valuation of the estate whilst ensuring that the ongoing unitary service charge is broadly within existing budgetary baselines. Work is ongoing to update the business case based on the actual bid information received at ITN. The early indications are very positive and certainly appear to reaffirm that value for money will be delivered through the contract.

16. In developing the contract we have taken account of National Audit Office and Public Accounts Committee recommendations particularly in relation to refinancing, profit sharing and tax structures. We have noted the positive NAO reports on similar transactions such as PRIME (the contract for the Department of Work and Pensions estate) and STEPS (the contract for the then Inland Revenue estate). We have also engaged the Northern Ireland Audit Office and those discussions are continuing.

Commercial issues

17. We have also drawn on some very valuable lessons from earlier deals in areas such as the valuation of properties, development opportunities and profit sharing. In light of this we are developing a commercial approach which helps drive best value for the NICS at the start, during and at the end of the contract. This involves optimising the value that we receive for the properties at the outset of the contract and including robust legal clauses to ensure that the NICS shares in any development gains, super profits and refinancing gains that the successful bidder may make during the life of the contract. These contractual protections will maximise value for money and help to address any perceptions that the private sector is making excess profit at the expense of the public purse.

Soft services

18. The nature of a total property PFI solution means that the PSP would normally be responsible for the provision of “soft services” which typically includes catering, cleaning, security, reception, messenger and portering services. The integration of these services is a key element in achieving best value as it reduces whole life costs and encourages efficiency through economies of scale and multiskilling. Having completed a thorough assessment in line with Treasury guidance we have concluded that value for money can best be achieved by including soft services in this contract.

19. The majority of NICS soft services such as cleaning, catering and security (in cost terms about 70% of the total cost of soft services) have already been outsourced for many years and there can be no question of these coming in house. However there are about 300 support grade staff who currently provide messenger, reception and portering services to the transferring estate and whilst it is our intention to transfer those **functions** as part of the contract we have worked very hard with trade union colleagues to ensure that the **staff** affected will not be disadvantaged. Processes have been put in place to allow support staff to transfer to mainstream civil service jobs ensuring that they will have the opportunity for the first time to redeploy within the civil service if they wish to do so. It also provides them with a career path and most of the staff have indicated that they would be keen to consider these options. As things stand it is very unlikely that there will be compulsory transfers to the private sector.

Impact on local businesses

20. The Programme for Government Committee had concerns about the specific economic impact on local businesses presently providing services to government offices and who might be displaced as a result of the contract. Under EU procurement rules the procuring authority is prohibited from interfering in a procurement that could create an unfair advantage for any of the potential suppliers. We have been able, however, to assure the Committee that about three quarters of the suppliers listed by the bidders were

either based in, or had a substantial NI presence. We will continue to evaluate this as the procurement progresses.

Next Steps

21. We are currently finalising our requirements for BAFO and updating the business case in parallel. However we are clear that we will not be proceeding to the next stage until the final scope and content of the contract have been agreed and decisions taken on the key issues. It is our intention that the DFP Minister would put a paper to the Executive in July and would therefore welcome input from the Committee at this stage.

Annex A

Location of Public Sector Jobs

Issue: **Update on the Location of Public Sector Jobs in Northern Ireland**

Recommendation: **That the Committee notes the position and provides a view on the process to date and next steps**

Background

Review of Public Administration: Estates

1. The Review of Public Administration reached a conclusion in March 2006. Implementation is now being taken forward by the relevant government departments. One of the RPA cross-cutting themes is focused on Estates issues.

2. The implementation of Ministerial decisions in relation to the RPA could potentially result over time in some relocation of public sector jobs across Northern Ireland. While there is considerable current guidance on relocation and accommodation, including HM Treasury and DFP guidance, the scale of change provides opportunities to review the policy framework and in particular the principles which need to underpin decisions resulting from the RPA.

3. Accordingly a cross-sectoral Estates Working Group, chaired by DFP Permanent Secretary John Hunter, was set up in summer 2006. The objectives of the Working Group are:

   a. to establish a base case of data on location of public sector jobs and other socio-economic data to inform decisions and to update that case as decisions are taken so that progress can be monitored;

   b. to develop appropriate policies and guiding principles to use as a framework against which decisions on location can be taken; and

   c. to collate the estates strategies and plans in the various RPA areas and to stimulate their effective co-ordination (taking account of other reform programmes) so that decision making by Ministers and Local Authorities on the location of new bodies is well informed and soundly based, having regard to service delivery needs, providing the best value for money, and taking account of the rights of staff and consistent with Government's wider social policy objectives and its statutory obligations, including those under S75 of the Northern Ireland Act 1998.

4. In autumn 2006 the Estates Working Group therefore began developing a set of draft guiding principles to underpin decisions on the location of public sector jobs as a result of RPA for public consultation.

Programme for Government Committee

5. A Programme for Government Committee Sub-Group was established to consider Workplace 2010 and Public Sector Jobs Location. The Sub-Group reported to the Committee in January 2007. In response to the Committee's report the consultation document was amended so that the scope of the framework was

widened beyond the short-term implications of the RPA and invited comments on the existing policy framework (which includes Workplace 2010) and how this might be positively developed.

Consultation

6. Led by DFP the Estates Working Group published the consultation paper on 26 January 2007 – *Guiding Principles for the Location of Public Sector Jobs in Northern Ireland* - inviting views on the proposed guiding principles to underpin decisions on the location of public sector jobs resulting from the RPA and in the longer term.

7. The consultation document outlined the current requirements, policy and guidance which currently apply in Northern Ireland in relation to the issue of location. The document then set out eight proposed principles to underpin decisions on the location of public sector jobs. In brief the principles were as follows:

- Improving service delivery;
- Taking account of staff interests;
- Achieving value for money;
- Effective working;
- Effective asset management;
- Maximising social and economic benefits;
- Promoting equality and good relations; and
- Sustainable development.

The consultation paper was subject to considerable pre-issue discussion with interested parties including the Public Service Commission, the Equality Commission and Trade Union Side who were generally supportive of the initiative. The Public Service Commission subsequently produced a draft “guiding principle” on location and this is currently still the subject of discussion.

As part of the consultative process we held two open workshops which attracted over 70 delegates. The consultation period closed on 30 April 2007.

Consultation responses

10. The consultation attracted strong interest. Thirty-nine written responses were received. DFP officials are currently analysing the responses and producing a summary of the responses.

11. One of the key themes to emerge so far in the analysis of consultation responses is the issue of dispersal. A significant number of respondents, mostly from West of the Bann, argued that a pro-active policy of dispersing public sector jobs from the Belfast area should be adopted by the Executive. Other respondents, mostly from the Greater Belfast area, acknowledged that a well managed relocation policy could bring a more even spread of benefits of public sector employment opportunities across Northern Ireland but also emphasised the critical relationship between the long-term success of Belfast and the success of Northern Ireland Plc and pointed to continued areas of deprivation within the Belfast area. A possible approach suggested by some respondents was to initiate a detailed review to develop options on relocation to enable the Executive to come to an agreed approach on the scale and degree to which relocation policy should be applied in Northern Ireland.

Next steps

12. The full analysis and summary of the consultation responses will be completed in early June. Thereafter the intention would be for the DFP Minister to take a paper on the location of public sector jobs to the Executive for consideration in July 2007.

Northern Ireland Assembly: Committee for Finance and Personnel; Best Practice Approach to Private Finance Initiative (PFI); NIAO Submission

Briefing Paper from Kieran Donnelly (Assistant Auditor General) and Brandon McMaster (Director), Northern Ireland Audit Office (NIAO), regarding their presentation to the Committee on Wednesday, 20 June 2007

Introduction

1. The Comptroller and Auditor General, John Dowdall CB, is head of the Northern Ireland Audit Office employing some 145 staff. He and the Northern Ireland Audit Office are totally independent of Government. He certifies accounts of all Government Departments and a wide range of other public sector bodies; and he has statutory authority to report to the Northern Ireland Assembly on the economy, efficiency and effectiveness with which departments and other bodies have used their resources.

2. Our approach to assessing the value for money of PFI projects follows closely the methodology developed by the National Audit Office e.g. reviewing:

 - The Strategic Analysis up to and supporting the Outline Business Case;
 - The Tendering phase up to and including selection of the preferred bidder(s);
 - Contract Completion – activity between selection of preferred bidder(s) and financial close;
 - Pre-Operational Implementation, the phase between contract close and the start of operational services; and
 - Post-Operational performance.

3. In addition, the Office's work on PFI continues to highlight best practice and ensure that the extensive lessons emerging from the Great Britain experience, through Westminster PAC reports on PFI projects, are fully applied in Northern Ireland, as the use of the initiative expands. For example, the Westminster Committee's 28th report 2002-03, *"Delivering better value for money from the Private Finance Initiative"*, draws together the lessons learned from its work to that date. Many of these continue to have relevance – a copy of this report is attached for information.

4. In terms of NIAO's work, we have, to date, published five reports covering 12 Private Finance Initiative projects with a further two reports in the pipeline. In addition, we have published two composite report volumes which record departmental responses to the recommendations contained in two of the five published reports. Two further reports, *Reinvestment and Reform: Improving Northern Ireland's Public Infrastructure* and the *Financial Auditing and Reporting General Volume for 2003-04*, deal with PFI related issues, in particular reporting of financial commitments. A list of these reports is attached as Appendix 1.

5. NIAO's presentation to the Committee will cover the following:

 - Role and Responsibilities of NIAO in relation to PFI
 - Audit approach to PFI –Financial and VFM
 - Overview of Lessons Learned
 - Key issues

Private Finance Initiative: NIAO Reports

1. **The PFI Contract for the Education and Library Boards New Computerised Accounting System (March 2003)**

This report examined a contract negotiated in 1999 by the South-Eastern Education and Library Board for the development and operation of a new IT system, procured under the Private Finance Initiative to support the financial and management needs of the five Education and Library Boards. This contract is due to run until 2012 and was projected to cost £17.6 million at 1999-2000 prices.

2. **The Private Finance Initiative: A Review of the Funding and Management of Three Projects in the Health Sector (Feb 2004)**

This was a report on the funding and management of three early PFI projects in the Health Sector. The projects covered were the:

- Contract Energy Services at Holywell Hospital (signed May 1996) ;
- Provision of car parking at the Royal Hospitals (signed October 1996); and
- Renal Services at Antrim Area Hospital (signed April 1999)

These were small projects in PFI terms with capital values of £2.0m, £0.2m and £2.7m respectively. Whilst they were compliant with prevailing policy and guidance, they would not be taken forward as standalone projects under current PFI policy and practice.

3. **Building for the Future (October 2004)**

This report examined the delivery of the first education building projects to be delivered through the Private Finance Initiative (PFI). The six "Pathfinder" Projects, comprising Balmoral High School, St. Genevieve's High School, Wellington College (all in Belfast), Drumglass High School (Dungannon), and the Belfast and North West Institutes of Further and Higher Education had a total capital value of £67million.

4. **The Private Finance Initiative: Electronic Libraries Initiative for Northern Ireland (ELFNI) (November 2005)**

This report examined the procedures leading to the award and implementation of the contract for the ELFNI project. The contract, which is worth £36m, covers a ten-year period which commenced in May 2002.

5. **The PFI Contract for Northern Ireland's New Vehicle Testing Facilities (March 2006)**

This report examined the Driver and & Vehicle Testing Agency's (DVTA) £57million contract for the provision of automated vehicle testing equipment, procured under the Private Finance Initiative.

6. **Reinvestment and Reform: Improving Northern Ireland's Infrastructure (December 2006)**

Although implementation of the Investment Strategy is at an early stage, this report made a number of recommendations aimed at improving delivery and securing increased transparency through full public awareness as to the application of the available funding.

NIAO Compendium Reports with a PFI content

7. **Departmental Responses to Recommendations in NIAO Reports (October 2004)**

Included the PFI Contract for the Education and Library Boards' New Computerised Accounting System (March 2003)

8. **Departmental Responses to Recommendations in NIAO Reports (July 2005)**

Included the Private Finance Initiative: A Review of the Funding and Management of Three Projects in the Health Sector (February 2004)

PFI Work in Progress

9. **Private Finance Initiative: Transfer of Surplus Land in the PFI Pathfinder Projects**

Our report "Building for the Future A review of the PFI Education Pathfinder Projects" (NIA 113/03, October 2004), found that the affordability of the projects was helped by the disposal of surplus assets (land). We indicated that this was the subject of a separate review and possibly a published report.

Our examination has involved reviewing each of the transfers of land (total value £23m) to ensure that they were appropriate; value for money was secured; and the public sector's future interests were protected.

We aim to publish our report in Autumn 2007.

10. **Private Finance Initiative: Computerisation Project for the Delivery of Land Registers (NI) Services**

This project, valued at around £44 million, was to use a modern Geographical Information System (GIS) and databases to process all transactions received by Land Registers electronically and more efficiently, with the aim of reducing customer fees, turn around times, improve the quality of service and increase the amount of land information available to the public.

Our report will examine the background to the extension of the contract, the project management and governance arrangements and whether the system is delivering the expected benefits.

We will publish the report in 2008.

PAC Report

Delivering better value for money from the Private Finance Initiative: Committee of Public Accounts - Twenty-Eighth Report 2002-03

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HC 764 2002-2003

Contents

Twenty-Eighth Report

The Committee of Public Accounts has agreed to the following Report:

Delivering better value for money from the Private Finance Initiative Committee of Public Accounts

Summary

Since its launch in 1992, the Private Finance Initiative (PFI) has become one of the main methods by which the public sector procures services from the private sector. More than 500 deals have now been signed with a total capital value of over £50 billion.

In 1999, after we had examined and reported on four of the early PFI deals, we issued a progress report on experience to date to help the public sector get the best possible deals for the taxpayer.[1] Since then we have issued a further 18 reports on individual deals or cross-cuttings issues involving the PFI (**Appendix 1**). This report draws together the lessons learned from this work. Individual deals need to deliver value for money for taxpayers and users of services, and best practice needs to be applied more generally to safeguard the public interest.

We draw the following main conclusions from our examination:

- The PFI is an important method of procuring public services that has now become well established. It offers a number of potential advantages but there are also a number of potential drawbacks. The balance to be struck will depend on the circumstances of each case, and each proposed deal needs to be considered carefully on its merits. Whilst there are examples of good practice, our examination of a wide range of PFI deals shows that many departments need to get better at procuring and managing contracts. Best practice needs to be more widely adopted if the taxpayer is to reap the full benefits of the PFI approach.
- Successive administrations have adopted the policy of using the PFI for those cases where the approach is expected to deliver value for money. The Prime Minister said in September 2002 that the PFI has a central role to play in modernising the infrastructure of the NHS—but as an addition, not an alternative, to the public sector capital programme.[2] Yet the PFI is too often seen as the only option. To justify the PFI option, departments have relied too heavily on public sector comparators. These have often been used incorrectly as a pass or fail test; have been given a spurious precision which is not justified by the uncertainties involved in their calculation; or have been manipulated to get the desired result. Before the PFI route is chosen departments need to examine all realistic alternatives and make a proper value for money assessment of the available choices.
- The taxpayer is not always getting the best deal from PFI contracts because good procurement practice is not being followed. We have seen examples where competitive tension is not maintained; where there is only one bidder for the contract; or where the contractor raises the price after becoming the preferred bidder. Sound procurement procedures need to be applied to all purchases of goods and services, however they are financed. Departments need to get better at protecting the taxpayer's interests when negotiating PFI deals.

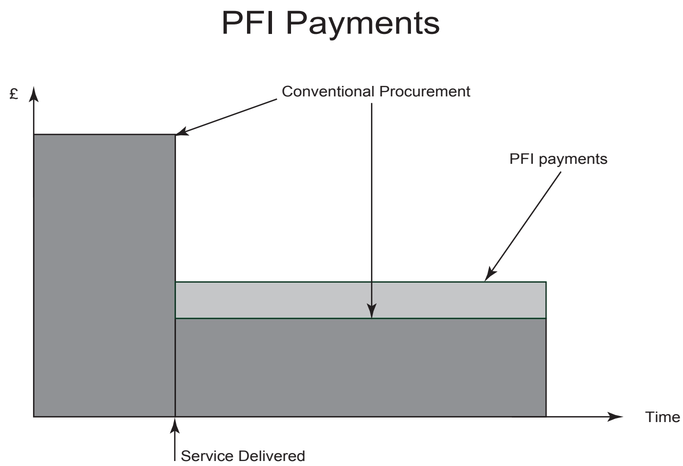
- Most PFI contracts are long-term deals of 25 years or more. Once deals have been signed, projects must be managed effectively so that the required services are delivered to an acceptable standard over the life of the contract. Effective management requires a partnership approach between departments and contractors, a proper system of rewards and penalties for good and bad performance, and satisfactory procedures for dealing with change.
- Departments are too willing to bail out PFI contractors who get into trouble. Contractors should expect to lose out when things go wrong just as they expect to be rewarded when projects are successful. Departments must ensure that PFI contracts safeguard the taxpayer’s position in circumstances where the contractor is no longer able to deliver what is required under the contract. Departments should consider in advance how they will eventually exit from deals should this prove necessary and draw up contingency plans accordingly. When projects run into difficulties prompt action is necessary to prevent costs rising further. They taxpayer must not be expected to pick up the tab whenever a deal goes wrong.

1. Choosing whether to go ahead with the PFI option

Assessment of options

1. PFI contracts are generally long term arrangements involving public expenditure over extended periods, often for 30 years or more. The public sector does not have to find the money up-front to meet the initial capital costs. But the cash payments thereafter will generally be higher than in an equivalent conventionally-financed project (**Figure 1**). The PFI approach can enable departments to undertake projects which they would be unable to finance conventionally since they do not need to find all the money for the capital asset during its construction. PFI deals can therefore be attractive in the short term. But there is a risk that this attractiveness may distort priorities in favour of those projects which are capable of being run as PFI projects.

Figure 1: Timing of payments under the PFI and conventional procurement



Note: In conventional contracts the private sector is paid for the construction of the asset and the public sector makes separate arrangements for the ongoing maintenance and operation of the asset. In PFI contracts the private sector is paid on the basis of the service provided over the lifetime of the contract. The regular unitary charge paid to the contractor is intended to cover the cost of construction, maintenance and operation of the asset.

Source: National Audit Office

2. Since the Government can borrow money at lower interest rates than private companies, PFI deals will generally cost more to finance than publicly funded projects. For the PFI route to be worthwhile, the higher financing costs and any other potential disadvantages need to be more than outweighed by the benefits achieved. Such benefits might include a better allocation of risk between the public and private sectors; improved delivery as a result of the incentives offered to private contractors through the payment mechanism; and closer integration between design, construction and operation. Some of the potential benefits and disbenefits of PFI deals are shown in **Figure 2**.

Figure 2: Potential benefits and disbenefits of PFI deals

Benefits	Disbenefits
There can be greater price certainty. The department and contractor agree the annual unitary payment for the services to be provided. This should usually only change as a result of agreed circumstances.	The department is tied into a long-term contract (often around 30 years). Business needs change over time so there is the risk that the contract may become unsuitable for these changing needs during the contract life.
Responsibility for assets is transferred to the contractor. The department is not involved in providing services which may not be part of its core business.	Variations may be needed as the department's business needs change. Management of these may require re-negotiation of contract terms and prices.
PFI brings the scope for innovation in service delivery. The contractor has incentives to introduce innovative ways to meet the department's needs.	There could be disbenefits, for example, if innovative methods of service delivery lead to a decrease in the level or quality of service.
Often, the unitary payment will not start until, for example, the building is operational, so the contractor has incentives to encourage timely delivery of quality service.	The unitary payment will include charges for the contractor's acceptance of risks, such as construction and service delivery risks, which may not materialise.
The contract provides greater incentives to manage risks over the life of the contract than under traditional procurement. A reduced level or quality of service would lead to compensation paid to the department.	There is the possibility that the contractor may not manage transferred risks well. Or departments may believe they have transferred core business risks, which ultimately remain with them.
A long-term PFI contract encourages the contractor and the department to consider costs over the whole life of the contract, rather than considering the construction and operational periods separately. This can lead to efficiencies through synergies between design and construction and its later operation and maintenance. The contractor takes the risk of getting the design and construction wrong.	The whole life costs will be paid through the unitary payment, which will be based on the contractor arranging financing at commercial rates which tend to be higher than government borrowing rates.

Source: National Audit Office

3. Before embarking on the PFI route, departments need to consider the available options for financing their projects. As well as the PFI, the options may include other types of partnership arrangements with the private sector and various forms of conventional finance. The assessment should include a realistic and comprehensive analysis of costs, benefits and risks. Such appraisals are not always being done adequately, however, with the PFI option too often being seen as the favoured route before a proper assessment has been carried out.

4. The question also arises as to whether the benefits of the PFI approach—particularly the use of private sector skills and the more appropriate allocation of risk—are sufficient to justify the extra cost of using private finance. One of the valuable features of private sector financing of PFI projects is the extensive due diligence that private sector risk-takers carry out. But the returns to financiers need to be commensurate with the risks that they are actually taking and this in turn depends on the market being well informed and truly competitive. External financing of PFI projects could be good value if the extra costs are justified by the risks transferred and if due diligence serves to manage those risks more effectively. But it is also possible that these benefits could be obtained more cheaply through alternative forms of financing. A thorough evaluation of the advantages and disadvantages of possible alternative financing structures for PFI deals is needed.

The public sector comparator

5. A public sector comparator is a costing of a conventionally financed project delivering the same outputs as those of the PFI deal under examination. It is just one of a number of ways of evaluating a proposed PFI deal. It is directly relevant only when the publicly financed option on which it is based is a genuine alternative to the PFI deal. This is most likely to arise at the outset of a project.[3]

6. The use of public sector comparators has been the subject of considerable debate about their reliability, accuracy and relevance in the contexts in which they have come to be used. We have seen many cases where the public sector comparator has been incorrectly used as a pass or fail test. In these cases the desire to show that the PFI deal is "cheaper" than the public sector comparator has led to manipulation of the underlying calculations and erroneous interpretation of the results. There are likely to be qualitative and non-financial differences between the options that cannot simply be subsumed in a difference in forecast cost.

7. The accuracy of public sector comparators is limited. They are prone to error because of the complexity of the financial modelling that is often used. They are also dependent on uncertain forecasts. This places a limit on the accuracy which can be achieved, however much work or analysis may be done. Further work takes time and money without necessarily adding to the value of the public sector comparator as a decision tool. There is also a risk that the users of the public sector comparator will believe that it is more accurate than it could ever be. Decisions can be made on the basis of small and spurious differences between the public sector comparator and the PFI option.

8. Examples of some significant weaknesses in the use of public sector comparators are set out in **Figure 3**.

Figure 3: Weaknesses in the use of public sector comparators

PFI deal	Committee's findings
Dartford and Gravesham Hospital (12th Report, Session 1999-2000)	The NHS Trust did not detect significant errors in the public sector comparator. The Trust also did not quantify the full effects of changes in contract terms and of the sensitivity of the deal to changes in key assumptions, as the deal went forward. Had the Trust known that the savings were marginal when negotiating the deal, it might have made different decisions and achieved better value for money.
Airwave (64th Report, Session 2001-02)	A public sector comparator was not prepared until late in the procurement, and after a decision to use the PFI had already been made. It is therefore doubtful that the use of a comparator added to the decision-making process.
MOD Main Building (4th Report, Session 2002-03)	The public sector comparator gave a central estimate for the cost of a conventionally financed alternative to the PFI deal as £746.2 million, compared to an expected deal cost of £746.1 million. Such accuracy in long term project costings is spurious, and the small margin in favour of the PFI deal provided no assurance that the deal would deliver value for money.
West Middlesex Hospital (19th Report, Session 2002-03)	The NHS Trust's advisers strove to make slight adjustments to the calculations, well within the range of error inherent in costing a 35 year project, so that the PFI cost appeared marginally cheaper than the public sector comparator.

Comparison with the best alternative option available

9. Once the stage of choosing between PFI and non-PFI options has passed, the public sector comparator becomes less relevant. At all times, however, during the procurement negotiations departments need to keep in view the best alternative to proceeding with the PFI deal. In some cases the best alternative may be the public sector comparator project but it is likely that as time passes the real alternative to proceeding with the PFI deal will be some other project: a different technical solution, or a project delivering different benefits. Retaining a choice of action is particularly important during negotiations with bidders to maintain pressure on the price and avoid increases in the cost of the deal.

Financing costs

10. Financing costs are a major component of the contract price and the prices of alternative sources of finance can fluctuate over time. The value for money case for PFI depends on it bringing benefits that outweigh the extra costs of private finance. But the way in which financing costs are made up is often not transparent. For example, in the MOD Main Building deal (4th Report, Session 2002-03) the Department could not quantify the extra costs of private finance. It was therefore not clear whether the returns being

made were reasonable in relation to the risks being borne. Closer attention to financing costs would have been particularly helpful during the 16 months it took to close the deal. Reducing the length of that period, postponing the choice of finance to the end to get the cheapest form available, and a better informed approach to the financing markets prior to closing the deal all might have helped to secure savings on this project.

2. Striking a good deal

11. Good procurement practice needs to be followed for all purchases of goods and services, however they are financed. In this respect the PFI is no different from other forms of procurement. Some of the details may differ but the basic procurement philosophy as regards ensuring competition, properly evaluating bids and controlling the costs of the procurement remains the same.

Ensuring competition

12. Competition is a fundamental requirement for getting good value from PFI deals. A procuring department needs to survey the market to establish how many companies would be interested in the project and to assess whether its proposals are likely to be attractive to potential bidders. If too few bidders are interested there may be problems with the design of the project and the department should think again. Competitive tension amongst a number of bidders needs to be maintained for as long as possible. A single preferred bidder should not be chosen prematurely or before outstanding issues have been resolved. When it is no longer possible to maintain competitive tension and exclusive negotiations with a single bidder begin, departments should aim to manage these negotiations as effectively as possible. Changes to the project at this late stage are likely to increase its cost.

13. **Figure 4** shows some examples of cases where the procurement process has not been fully competitive and value for money is unlikely to have been achieved. In some cases departments have ended up with a single bidder but have still pressed on despite evidence that there were problems with the design of their projects. In other cases there have been protracted negotiations at the preferred bidder stage and the cost of the deal has crept up.

Figure 4: Examples of inadequate competition

PFI deal	Committee's findings
Immigration and Nationality Directorate (7th Report, Session 1999-2000)	Key figures, on which future increases in productivity would be measured and payments to the contractor calculated, had not been finally agreed until more than a year after the contract was signed. Such important issues need to be finalised before a contractor is selected and the benefits of competition fall away.
Dartford and Gravesham Hospital (12th Report, Session 1999-2000)	The NHS Trust selected two firms to submit final bids but one of the firms did not submit a bid. The Trust therefore ended up with only one final bidder on this major pathfinder project for the use of the PFI in the NHS. The bidder's final bid was 33% higher in real terms than its indicative bid. The Trust did not undertake a detailed analysis of the reasons for the increase in the final bid, especially given the absence of other bids. Such action might have helped the Trust to secure a greater price reduction in the subsequent negotiations.
Newcastle Estate (19th Report, Session 1999-2000)	In this deal the Department of Social Security appointed a preferred bidder whilst important issues remained unresolved. Exclusive negotiations with the preferred bidder continued for 18 months.
Royal Armouries Museum (4th Report, Session 2001-02)	There had been a lack of market interest in the deal when it was put out to the market and only one bid had actually been received. When withdrawing from the competition for this project, one company had expressed concern over the practicality of the proposals for joint working between the public and private sectors in certain areas. The Royal Armouries were not given access to the contractor's financial records and there were disagreements between the two parties over issues which were of fundamental importance to the museum's future.

PFI deal	Committee’s findings
West Middlesex Hospital (19th Report, Session 2002-03)	The preferred bidder agreed to hold its price for seven months but it took the Trust eleven months to close the deal. The price increased after the commitment period had expired so the price commitment had only limited effect. The principle of securing a price commitment to deter “deal creep” is good, but a department using this approach needs to be sure that it can close the deal whilst the commitment still holds.

Evaluating bids

14. The full evaluation of bids should seek to identify the bid that offers the best combination of financial and non-financial factors. It should include an assessment of bidders’ financial and technical competence, including their performance on other government projects. Information to help evaluate bids can be obtained by attempting to cost the bidder’s proposed solution, which requires access to the bidder’s financial model. The model would show the financial outcome of a particular set of estimated costs, revenues and charges for delivering the service over time.

15. Benchmarking the prices offered by contractors is highly desirable in a competitive situation but is absolutely essential in a single bidder scenario. In the Airwave deal (64th Report, Session 2001-02), when the procurement went down to a single bidder, the contractor recognised that there was a need to change its approach and proposed using a should-cost model. The model would describe the components that make up the system, the contractor would make its own estimate of what it would cost and the Department could check whether it felt the estimates were appropriate.

The cost of negotiating deals

16. The procurement of PFI deals is inherently more complex than the procurement of conventional deals and can involve departments and bidders in heavy administrative costs. For example, on the Newcastle Estate deal (19th Report, Session 1999-2000), the cost of the procurement to the Department of Social Security rose from an initial estimate of £0.4 million to £4.4 million, an eleven-fold increase, reflecting the complexity of this type of procurement and the Department’s inability to undertake many of the tasks required to negotiate the deal. On the Prime deal to transfer the Department of Social Security estate to the private sector (41st Report, Session 1998-99), the Department’s costs totalled £10.9 million, compared with an initial budget of £1.7 million, and the final three bidders spent around £27 million in preparing their bids.

The cost of advisers

17. Advisers’ costs in PFI deals can exceed budgets by significant margins. For example, on the Newcastle Estate deal (19th Report, Session 1999-2000), the cost of legal advice increased from an initial estimate of £70,000 to an outturn of £2.3 million. On the Dartford and Gravesham Hospital deal (12th Report, Session 1999-2000) the Trust incurred advisers’ costs of £2.4 million, which exceeded the initial estimates by almost 700%. After a series of hospital PFI deals, the Trust spent £2.3 million on advisers on the West Middlesex Hospital deal (19th Report, Session 2002-03), virtually the same amount as at Dartford and Gravesham four years earlier.

3. Managing the contract

Adopting a partnership approach

18. The success of these long-term contracts depends critically on the effectiveness of the partnership between the department and the contractor. On the National Savings deal (40th Report, Session 1999-

2000), National Savings and Siemens put in place a joint governance structure to help to ensure that the partnership worked as intended. This structure was used to manage both the wide range of issues involved in the day-to-day running of the contract and to maintain strategic commitment to the partnership at senior levels within both organisations.

Measuring performance

19. Contracts should provide for compensation to be paid in the event that the contractor fails to meet the required performance standards, together with adequate arrangements for monitoring the contractor's performance in delivering the required services. In our report on Managing the Relationship in PFI Projects (42nd Report, Session 2001-02) 58% of authorities with a performance review process had made performance deductions from payments due to PFI contractors. This suggested that many authorities were not getting the service they required. If bids are priced on the assumption that actual performance will fall short of the required level, then contractors may not have a strong incentive to perform well.

Maintaining pressure for value for money

20. PFI contracts require appropriate mechanisms, such as benchmarking, market testing and open book accounting, to ensure that value for money is maintained over the lifetime of the project. Our report on Managing the Relationship in PFI Projects (42nd Report, Session 2001-02) found, however, that only around half of the contracts surveyed had such mechanisms in place. Over one in five authorities considered that there had been a decline in value for money in PFI projects after contract letting, with high prices for additional services a key area of concern.

Dealing with change

21. PFI contracts are generally of a long term nature and it is seldom possible to foresee all the changes that may later be required. Contracts therefore need to contain appropriate provisions for dealing with changing requirements. Our report on Managing the Relationship in PFI Projects (42nd Report, Session 2001-02) noted that 55% of the authorities surveyed had already used change procedures to update their contracts. Most of the changes had related to alterations in services, the introduction of new services, and additional works and changes to the design of buildings.

Sharing in windfall and refinancing gains

22. Departments should consider putting in place mechanisms to clawback part of any future windfall gains that contractors may earn so that there is at least a sharing of such benefits. When faced with a proposed clawback arrangement it is possible that bidders may adjust their proposed contract price upwards to compensate for the possible loss of future income. A department may therefore need to ask for prices from bidders with and without clawback to help it to determine the value for money of such an arrangement. The Prime deal (41st Report, Session 1998-99), the Newcastle Estate deal (19th Report, Session 1999-2000) and the revised Royal Armouries Museum deal (4th Report, Session 2001-02) have all included mechanisms to share the benefits of future windfall gains. In negotiating a deal with the contractor on the Airwave deal (64th Report, Session 2001-02), the Department failed to secure any clawback for the taxpayer of additional profits if other emergency services decide to join Airwave or if the system is sold to overseas governments. Failure to negotiate a clawback agreement was partly a product of the contractor being the only bidder.

23. Investors in PFI deals have on occasions made substantial gains following the refinancing of contracts. But only one in four of the early PFI contracts had clear arrangements to share refinancing gains with the public sector. In our report on the Refinancing of the Fazakerley Prison PFI contract (13th Report, Session 2000-01) the contractor had refinanced the project less than two years after the prison opened. The refinancing generated £10.7 million of benefits for the contractor's shareholders. A consequence of the

refinancing, however, was that the Prison Service would be exposed to increased liabilities in the event of the contract being terminated. The Prison Service secured compensation of £1 million, which was consistent with the cost of the additional risks it faced, but did not receive any further share of the refinancing benefits. Our 13th Report, Session 2000-01, recommended that departments should expect to share in such refinancing gains in future.

24. As noted in our PFI Refinancing Update report (22nd Report, Session 2002-03) the Office of Government Commerce has now issued new guidance on how departments should provide in future PFI contracts for the sharing of refinancing gains. The guidance envisages that refinancing gains should be shared 50:50 between the private and public sectors on all new deals. The Office of Government Commerce has also negotiated with the private sector a code of practice applying to past PFI deals under which a 70:30 (private sector: public sector) split of refinancing gains would take place, even if no provision for sharing refinancing gains had been made in the original deal.

Improving project management skills

25. Staff responsible for managing PFI projects need to have the appropriate skills. Even where the right contractual framework has been put in place, departments may fail to realise the full potential benefits of projects if contracts are not managed effectively. Effective management requires a thorough understanding of the project and the contractual arrangements and an ability to build effective relationships with contractors. In our report on Managing the Relationship in PFI Projects (42nd Report, Session 2001-02) we found significant shortcomings in approaches to managing PFI contracts. Some departments, for example, provided little or no training on contract management.

4. Safeguarding the taxpayer if the contractor fails to deliver

26. Departments have tended to bail out contractors who have not delivered or got into trouble, often after a period of delay or indecision in which the situation has got worse and losses have continued to mount. Departments have been reluctant to take a robust line with contractors who have failed to deliver what is required under the terms of the contract. Rarely, for example, have contracts been terminated, often because of the fear of costly litigation and counter claims by contractors.

27. If contractors successfully manage the risks that have been allocated to them and deliver the services required they can expect to earn rewards commensurate with the level of risk that they have borne. But commercial discipline is undermined if contractors get the impression that risks will be taken back by the public sector if they materialise in any serious way.

28. One function of risk capital in a project is to secure the commitment of those who subscribe it by giving them something to lose if the project fails. It is a false economy to proceed with a deal in which too little risk capital has been subscribed by the private sector. In the case of the Royal Armouries and the Channel Tunnel Rail Link, the public sector rewarded private sector failure by agreeing to reduce the risk of the contractors losing their equity investment when the private sector had not delivered.

29. An essential public service will need to continue operating even if a particular contractor is unable to deliver the service for which it is contractually responsible. This ultimate business risk cannot be transferred from the public sector to the private sector. Departments need to identify the possible consequences arising should this risk materialise and take steps to manage it throughout the contract.

30. A common feature of deals that have hit trouble is that contingency plans have been inadequate. In many cases matters have become more serious or departments have become locked into unfavourable courses of action because they have not had a fall-back position when things went wrong. The need for a fall-back position is no different from the need for contingency plans for all programmes, whether carried out through a PFI scheme or by directly employed staff.

31. **Figure 5** shows examples of PFI projects that have encountered problems after contract signature.

Figure 5: Examples of problematic PFI deals

PFI deal	Committee's findings
Immigration and Nationality Directorate (7th Report, Session 1999-2000)	The aim of the project was to overcome backlogs of work and concerns that cases were not being handled consistently or efficiently. When delivery of the system was delayed and things started to go wrong the Directorate's contingency planning was inadequate. It consisted only of continuing with the old, paper-based system of working.
Passport Delays of Summer 1999 (24th Report, Session 1999-2000)	During the summer of 1999, many members of the public encountered great difficulty in obtaining passports from the United Kingdom Passport Agency. The Agency's contingency planning proved inadequate, despite the lessons of the flawed implementation of the Agency's previous computer system in 1989. When serious risks crystallised in the crisis of 1999, the Agency was unable to hold the contractor liable for meeting anywhere near the full costs which arose.
Benefits Payment Card Project (3rd Report, Session 2001-02)	The Benefits Payment Card project was intended to replace the existing paper-based methods of paying social security benefits with a magnetic stripe payment card. The contract was awarded in May 1996 and cancelled in May 1999. It took 18 months from the point where the Department took steps to preserve its right to cancel the project, to take the decision to do so. Meanwhile abortive costs were rising and development of alternative arrangements was stalled.
Royal Armouries Museum (4th Report, Session 2001-02)	Under this PFI deal the contractor was required to build and operate a new museum in Leeds for the Royal Armouries. However, the Department effectively bailed the company out to the tune of over £10 million when it ran into financial difficulties and faced imminent insolvency. There were no contingency plans in place, as it was considered that the risk of the project's failure lay with the contractor. However, the business risks ultimately lay with the public sector as the Department and the Royal Armouries were unwilling to countenance the closure of the museum and had therefore stepped in to rescue the project.
Channel Tunnel Rail Link (22nd Report, Session 2001-02)	The deal to build the Channel Tunnel Rail Link left the Department exposed to very substantial risk in the event of failure by the contractor to raise long-term finance. In deciding to restructure the deal, the Department put in place complex arrangements that will expose the taxpayer to substantial risk for many years to come. The level of equity capital was insufficient to reflect the high level of commercial risk in this project, which depended on inherently risky forecasts of passenger numbers.

Conclusions and recommendations

Choosing whether to go ahead with the PFI option

1. Under the PFI a department gets its project now and pays for it later. The attractiveness of not having to find the money up front to meet the initial capital costs, together with a perception that the PFI is the favoured option, creates a strong incentive for departments to present their PFI deals as the preferred choice simply to get them to proceed. Departments may also be under pressure to choose the PFI option so as to keep debt off the public sector balance sheet. These potential risks underline how important it is that the PFI route should be chosen only after a robust value for money assessment of all the options.

2. To help in assessing whether or not to go ahead with a PFI option, departments are required to prepare a public sector comparator—an estimate of what a project would cost if conventional procurement methods were used. Public sector comparators focus solely on relative costs, yet they have often been used incorrectly as a comprehensive pass or fail test. Decisions on PFI deals need to be based on a realistic, systematic and comprehensive analysis of benefits and risks as well as costs. A robust public sector comparator should be just one of the factors in this assessment.

3. Some public sector comparators have contained material errors and omissions. Others have been given a spurious precision as a result of over-complexity, a pre-occupation with financial modelling, and a failure to take account of uncertainties. Some public sector comparators have been manipulated to get the desired

result. There is a need for a more intelligent use of public sector comparators by departments, with due recognition of the inherent uncertainties involved in the calculations and an awareness of the limitations of the resulting forecasts.

4. The appraisal of alternative options should not stop once the decision has been taken to procure a PFI deal. At each key stage of the procurement, and particularly before contract signature, it is essential that an assessment should be carried out of the value for money of the proposed PFI deal against the best alternative available at the time. Departments should not plough on with a poor deal just because they have spent time and effort on it. They should be prepared to start the procurement again if the best alternative solution looks likely to provide better value for money.

5. Financing costs form a significant part of the cost of a long term project. But it is often unclear how these costs are made up. Departments should always establish how the costs of private finance compare to other forms of procurement. Transparency of financing costs is essential both in comparing bids and in considering the merits of alternative forms of procurement.

6. The benefits of using the PFI approach are not always sufficient to outweigh the extra costs that private financing incurs. In some circumstances there may well be better ways of financing PFI deals. Consideration of more innovative ways of financing projects that might give a better deal for the taxpayer need to be investigated. We therefore look to the Treasury to examine how public authorities might obtain better financing for their PFI projects through alternative financing structures.

Striking a good deal

7. Before shortlisting potential bidders departments must be satisfied as to their financial and technical competence and their performance on other government projects. Firms should not be shortlisted unless it is clear that they are capable of doing the job required. Departments should pay specific attention to the prospect of bidders' proposals being delivered and to bidders' understanding of requirements.

8. Competition is essential if value for money is to be achieved. But on a number of deals we have examined, the department concerned received only one bid. The receipt of just one bid may indicate, for example, that the proposed project has been poorly designed. Where only one bid has been received, departments should consider redesigning the project and starting the procurement again.

9. Where competitive procurement is impossible or fails, departments should seek to use appropriate mechanisms, such as should-cost models, to evaluate bids. A should cost model is an independent calculation of the expected costs of delivering the same technical solution as is being proposed by the PFI bidder. In all cases, whether competitive or not, departments must understand how bidders' prices are made up. In the absence of competition they need to benchmark the prices offered by contractors, and examine contractors' financial models to assess the reasonableness of bids.

10. In many deals the contractor's price has increased substantially over the period between being named preferred bidder and signing the contract. Departments should not appoint a preferred bidder whilst important issues remain unresolved. Negotiations with preferred bidders should be kept short and to a tight timetable.

11. PFI deals remain very costly to negotiate and these costs need to be factored into the assessment. At the outset of a deal departments need to set realistic budgets for their own administrative costs, to monitor these costs and seek to keep them under control. They must also be mindful of the costs to bidders. Imposing excessive costs on bidders is likely to result in higher charges in the long run and might deter firms from bidding.

12. The cost of employing advisers also remains very high and in many cases continues to exceed budgets by a substantial margin. A fall in advisers' costs should have resulted from growing experience of doing deals. Departments need to drive down advisers' costs and ensure that sensible budgets are set and adhered to.

Managing the contract

13. PFI projects involve long term relationships between departments and contractors and need to be approached in a spirit of partnership, where both sides are open, share information fully and work together to solve problems. The partnership needs clear governance arrangements setting out how performance will be monitored, problems will be resolved and new services or other changes will be introduced.

14. Where contractors do not meet the required standards of service, most contracts allow departments to make performance deductions from the payments due. Whilst some fluctuations in performance are to be expected in a long term contract, the number of contracts with performance deductions suggests that some departments are not getting the service that they require. As with all public services, whether privately financed or not, departments must ensure that their PFI contracts do not allow persistent or serious under-performance to go unchallenged.

15. It is important in long-term contracts that performance and costs are measured regularly against the market to maintain pressure for value for money. Yet many contracts do not have the appropriate mechanisms, such as benchmarking, market testing and open-book accounting, to ensure that value for money is maintained over the lifetime of a project. Such mechanisms need to be an integral part of the contractual and governance arrangements for all contracts.

16. Long-term contracts should provide room for flexibility in the face of changing circumstances. Such changes might relate to alterations in services covered by the original specification, the introduction of new services, or amendments to performance measurement arrangements. Appropriate contractual procedures for dealing with change need to be built into contracts. There is a tension between leaving room for necessary changes whilst not letting contractors make undesirable changes that are to the detriment of the public sector. For example, departments need to watch that change procedures are not abused as a covert means for contractors to increase profit margins.

17. The public sector should be able to share in the benefits of a successful partnership with private sector contractors. Successful projects will create opportunities for better financing terms as financiers will see that project risks have reduced once the service is being delivered satisfactorily. A refinancing can then greatly increase the returns to the private sector. But successful delivery of a PFI project is never a one-sided matter: success will come from the public sector and private sector working effectively together. It is welcome therefore that, following the work of this Committee and the National Audit Office, the Office of Government Commerce has agreed with the private sector that refinancing gains on PFI deals should be shared. On past deals gains are to be shared 70:30 between the private sector and the public sector and on new deals the split is expected to be 50:50.

18. Having staff with the right skills is critical to good project management. But there are significant shortcomings in the approach of some departments to managing PFI contracts. Departments need to give much greater emphasis to developing the project management skills needed to get the best out of their PFI contracts.

Safeguarding the taxpayer if the contractor fails to deliver

19. The essence of PFI deals is that the private sector contractor should take appropriate risks in return for appropriate rewards. If contractors fail to manage the risks they have taken on, they should expect that part or all of their equity investment in the project may be lost, just as they expect to be rewarded when things go well. In a number of individual cases, however, contractors have in effect been bailed out by the taxpayer. Even a small number of such cases can have a disproportionate affect on an essential commercial discipline, giving the impression that departments are likely to bail out PFI contractors whenever they get into trouble.

20. Departments should ensure that equity risk in PFI deals is real. If a project involves a high degree of commercial risk, it needs to be financed with a commensurately high level of risk capital relative to bank

debt. It is a false economy for a department to acquiesce in an over-geared financial structure for a PFI deal.

21. The transfer of risk inherent in a PFI deal cannot protect the authority from the risk that the private sector simply fails to deliver what may be a key public service. The remedies available cannot fully compensate for the disruption and operational risks that would inevitably follow. It is essential that departments should fully understand these and other risks that have not been transferred and ensure that they are actively managed.

22. When projects go wrong, management should face up to the prospect of failure and take prompt action to avoid abortive costs. A reluctance to take decisive action is likely to make a difficult situation much worse and lead to costs mounting ever higher.

23. In several deals we have examined that have gone wrong, contingency plans have proved to be inadequate. As with all their major programmes, departments should have up to date contingency plans ready on all major contracts so that there is a fall-back position if and when a project gets into difficulties.

24. Termination of PFI contracts has been a very rare event despite the number of deals that have got into trouble. In several cases, departments have hesitated to use termination provisions in PFI contracts for fear of counter-claims by the contractors. Departments need to make contractors aware that termination is a very real threat. They should not always regard it as the most difficult and risky option.

1 23rd Report from the Committee of Public Accounts, *Getting Better Value for Money from the Private Finance Initiative* (HC 583, Session 1998-99)

2 The Courage of our Convictions: Why Reform of the Public Services is the Route to Social Justice, UK Fabian Ideas Series No. 603, September 2002

3 Ev 1

Formal Minutes
Wednesday 9 June 2003

Members present:

Mr Edward Leigh, in the Chair

Geraint Davies
Mr Brian Jenkins
Mr David Rendel
Mr Gerry Steinberg

The Committee deliberated.

Draft Report (Delivering better value for money from the Private Finance Initiative), proposed by the Chairman, brought up and read.

Ordered, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 31 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

An Annex to the Report agreed to.

Resolved, That the Report be the Twenty-eighth Report of the Committee to the House.

Ordered, That the Chairman do make the Report to the House.

Ordered, That the provisions of Standing Order No 134 (Select Committees (Reports)) be applied to the Report.

[Adjourned till Wednesday 16 June at 3.30 pm]

Annex: Previous PAC Reports and Treasury Minutes on the PFI

Subject	PAC Report	Treasury Minute
The Skye Bridge	42nd Report, 1997-98	Cm 4041
The Contract to Develop and Update the Replacement National Insurance Recording System	46th Report, 1997-98	Cm 4041
The Private Finance Initiative: The First Four Design, Build, Finance and Operate Roads Contracts	47th Report, 1997-98	Cm 4041
The PFI Contracts for Bridgend and Fazakerley Prisons	57th Report, 1997-98	Cm 4041
Getting Better Value for Money from the Private Finance Initiative	23rd Report, 1998-99	Cm 4469
The PRIME Project: The Transfer of the Department of Social Security Estate to the Private Sector	41st Report, 1998-99	Cm 4593
Home Office: The Immigration and Nationality Directorate's Casework Programme	7th Report, 1999-2000	Cm 4688
The PFI Contract for the New Dartford and Gravesham Hospital	12th Report, 1999-2000	Cm 4758
Ministry of Defence: The Procurement of Non-Combat Vehicles for the Royal Air Force	15th Report, 1999-2000	Cm 4758
The Contributions Agency: The Newcastle Estate Development Project	19th Report, 1999-2000	Cm 4798
The Passport Delays of Summer 1999	24th Report, 1999-2000	Cm 4863
The Private Finance Initiative: The Contract for the Defence Fixed Telecommunications System	26th Report, 1999-2000	Cm 4886
National Savings: Public-Private Partnership with Siemens Business Services	40th Report, 1999-2000	Cm 5021
The Refinancing of the Fazakerley PFI Prison Contract	13th Report, 2000-01	Cm 5261
The Cancellation of the Benefits Payment Card Project	3rd Report, 2001-02	Cm 5393
The Renegotiation of the PFI-type Deal for the Royal Armouries Museum in Leeds	4th Report, 2001-02	Cm 5450
The Channel Tunnel Rail Link	22nd Report, 2001-02	Cm 5512
Managing the Relationship to Secure a Successful Partnership in PFI Projects	42nd Report, 2001-02	Cm 5600
The Use of Funding Competitions in PFI Projects: The Treasury Building	43rd Report, 2001-02	Cm 5676
Public Private Partnerships: Airwave	64th Report, 2001-02	Cm 5728
Private Finance Initiative: The Redevelopment of MOD Main Building	4th Report, 2002-03	Cm 5789
The PFI Contract for the Redevelopment of West Middlesex University Hospital	19th Report, 2002-03	-
PFI Refinancing Update	22nd Report, 2002-03	-

Appendix

Memorandum submitted by the Comptroller and Auditor General

The Use of Public Sector Comparators in Decisions on PFI Deals

1. The concept of the public sector comparator (PSC) was introduced early during the development of the Private Finance Initiative as an aid to decision-making about PFI deals. As commonly practised, the PSC is a costing of a conventionally financed project delivering the same outputs as those of the PFI deal under examination.

2. The use of PSCs has become a controversial matter, with considerable debate about their reliability, accuracy and relevance in the contexts in which they have been used. The National Audit Office and Committee of Public Accounts have made numerous recommendations about PSCs; these are summarised in the Annex to this memorandum.

3. This Note examines the circumstances in which PSCs might best be used and makes recommendations. It concludes that the PSC can play a useful role in certain decisions which might arise during the negotiation of a PFI deal, but that it is subject to significant limitations. In many circumstances it has no role to play at all; in others, its limited usefulness needs to be properly understood by all those concerned with PFI deals.

The PSC Has a Role in PFI

4. When a public authority is considering any investment project it is expected to apply a rational approach to appraising the options.[1] In the case of a potential PFI deal, the authority is expected to examine the range of feasible alternatives to the PFI deal. The cost of private finance is likely to be somewhat higher than public finance, but that extra cost might potentially be offset by savings and benefits elsewhere in the privately financed project. On that basis, it has been the policy of successive governments to use private finance in cases in which it can be shown that it will deliver better value for money than alternatives.

5. As a costing of a conventionally financed project (which we might call "the PSC project") delivering the same outputs as the proposed PFI deal, the PSC is quite clearly a relevant factor in the authority's appraisal of alternative options to the PFI deal, provided, of course, that such a conventionally financed project is indeed feasible as an alternative to the PFI deal.

6. In some cases, the PSC project would be technically feasible, but could not be afforded within the constraints on expenditure applying to the authority in question. The Treasury has issued guidance on how departments should proceed in such cases of expenditure constraints. This guidance was summarised in a Note to the Committee by the NAO.[2] In short, there would still be a role for the PSC, provided that the PSC project would be technically feasible but for the expenditure constraints.

1 See, for example, successive editions of the Treasury's "Green Book"

2 40th Report from the Committee of Public Accounts, National Savings: Public-Private Partnership with Siemens Business Services (HC 566, Session 1999-2000), Appendix 1

There are Significant Limitations on the Usefulness of the PSC

Questions a PSC can help answer

- Does the PFI cost more or less than the comparator?
- Where do the costs differ?
- Is the PFI bid credible?
- Is the comparator realistic?
- Can further value be extracted from the bid?

NB There usually are better ways of answering these questions.

It is Directly Relevant only at Limited Stages of the PFI Procurement

Direct relevance

7. The PSC is directly relevant whenever the publicly financed option on which it is based (the PSC project) is a genuine alternative to the PFI deal. That is a situation that may well arise at the very outset of a project, but even at that early stage it may be that the true alternative to the PFI deal is some different project. For example, if the public sector does not possess the technical capability to develop a publicly financed project then the PSC cannot be relevant to the choice actually available to the public sector. Or it may be that a different kind of publicly financed project would be preferred. For example, when the Skye Bridge PFI deal was under consideration, the Scottish Office considered that the best alternative publicly financed project would have been to upgrade the existing ferry service.[3]

8. Once the stage of choosing between PFI and non-PFI options has passed, the PSC probably ceases to be relevant. At all times during the negotiation of a PFI deal, it is prudent for the authority to keep in view its best alternative to proceeding with the PFI deal. In some cases, the best alternative may be the PSC project, but it is likely that as time passes the real alternative to proceeding with the PFI deal will be some other project: a different technical solution, or a project delivering different benefits.

Indirect relevance

9. Whatever the reason, once the PSC project ceases to be a practicable alternative to the PFI deal, then its cost cannot be directly relevant to any decisions about the PFI procurement. It may, however, have some indirect relevance.

As a benchmark of PFI costs-but not the best benchmark

10. As a costing of one way of delivering the desired outputs, the PSC provides a benchmark against which other costings may be compared, notably the PFI bid or bids. Such a benchmark can be a fruitful source of questions about the deliverability and sustainability of the PFI bids.

11. During the period of exclusive negotiation with a preferred bidder that is a normal feature of PFI procurement, it is very important for the authority to prevent the price of the deal drifting upwards. One means by which the authority can protect itself from deal drift is by making it clear that the authority

3 *C&AG's Report, The Skye Bridge (HC 5, Session 1997-98)*

retains a choice; that is one reason for keeping in view at all times the best alternative to the PFI deal, as described above. Additional protection can come from a benchmark.

12. The PSC is not necessarily the best benchmark to use for checking the reality of PFI bids, however, because it is not a costing of the bidder's technical solution. It can be a source of initial questions about the bidder's proposed approach and pricing but better information can be obtained by attempting to cost the bidder's proposed technical solution. Such an approach makes use of what is known as a "should-cost" model. This type of model is an independent calculation of the expected costs of delivering the same technical solution as is being proposed by the PFI bidder. A should-cost model provides an understanding of the costs of delivering the proposed project and permits direct comparison with and challenges to the bidder's estimated costs. Should-cost models have a long history of use in non-competitive defence procurement.[4]

13. If the PSC is being used as a benchmark the component costs of the PSC (construction costs, operating costs and so forth) must be compiled in a way which is comparable with the component costs of the PFI bid. When a PSC has been prepared for another purpose, eg to aid decisions on options at an earlier stage of the procurement, its components may well not be consistent with subsequent versions of the private sector bids. That was the situation, for example, in the case of the Foreign and Commonwealth Office's PFI deal for the new British Embassy in Berlin, and it meant that the PSC could not be used effectively to test the way the costs of the PFI project were made up.[5]

As a budget

14. There is another way in which a PSC can be indirectly relevant to decisions on PFI deals, and that is in setting a broad budget for the total cost of the PFI deal. One of the potential advantages of the PFI approach is that the cost of a project is spread over the life of that project, but as with all "buy now, pay later" arrangements it may be hard to know how much in total is reasonably affordable for the authority. Some authorities have addressed that issue of affordability by using the total cost of the PSC as a guide to what, in total, they should spend on the PFI deal.

15. Where the PSC is being used to set a budget due allowance would need to be made for any differences in quality to which the PFI deal might give rise. Also, it would not be necessary to refine the PSC calculations in great detail to produce a budget figure: the PSC is just a guideline.

Where it is Directly Relevant, It Does not Tell the Whole Story

Questions a PSC cannot answer

- Is PFI a good idea for this project?
- Can we afford the project?
- Have we structured the PFI deal right?
- Will the private sector deliver?
- Could the public sector deliver?
- Will the deal cope with future changes?
- Do benefits of PFI outweigh extra financing costs?

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4 *C&AG's Report, Non Competitive Procurement in the Ministry of Defence (HC 290, Session 2001-02); 29th Report from the Committee of Public Accounts, Non Competitive Procurement in the Ministry of Defence (HC 370, Session 2001-02)*

5 *C&AG's Report, The New British Embassy in Berlin (HC 585, Session 1999-2000)*

16. As shown above, the PSC is directly relevant to decisions on PFI procurement only when the PSC project is a realistic alternative to the PFI deal. But even then the PSC is only part of the story. As the relevant Treasury guidance makes clear, it is not a pass or fail test.[6] The reasons why that is so go to the heart of the motives for considering the PFI option in the first place.

17. The basis for the argument that the PFI might be a wiser choice despite private finance costing more than public finance is that in some sense the PFI project could be a better project than the publicly financed alternative. A better project may be cheaper than alternatives, but overall value for money may point to a more expensive project.

18. A more expensive project might be better for a variety of reasons:

- Greater certainty of delivery: because the risks in the PFI project may be allocated to parties with the skills and incentives to manage them effectively, the project's outputs might be more likely to be delivered on time and to budget than a cheaper project.
- Higher quality outputs: a PFI project might offer assurance that, for example, a hospital will be maintained regularly to a higher standard than the public sector has achieved by conventional means.
- Focus on core business: Procuring a service through the PFI may allow public sector authorities to free up resources and focus on their core business.
- Access to private sector efficiencies and skills: a PFI project may bring in skills and efficiencies that are not available through a conventional procurement.

19. In summary, there are likely to be qualitative and non-cost quantitative differences between the options that cannot simply be subsumed in a difference in forecast cost. Since the PSC is no more than a costing of one alternative option, it cannot throw any light on non-cost aspects of the choice between PFI and other options.

The PFI Project and the Corresponding PSC Project are Qualitatively Different

20. The PFI project and the PSC project are likely to involve quite different technical solutions and would be carried out by different people, in different ways and subject to different incentives and penalties.

The benefits and risks of the PFI project and the PSC project are different too

21. There is evidence that PFI projects are delivered more reliably to time than traditional publicly financed projects[7] That is an example of a benefit that is not wholly captured as a reduction in cost. PFI projects often involve a commitment to a standard of maintenance that has rarely been achieved in the public sector. That is an example of a potential benefit which may increase the cost of the PFI project relative to the PSC project. PFI projects are supposed to lead to better risk management, a further benefit, but they may well involve risks of a kind which do not arise in conventional projects (for example, the risk of inflexibility as a result of being contractually tied to a given supplier for 30 years). Such risks are again not readily quantified as differences in cost.

6 *Treasury Task Force Private Finance Technical Note No. 5, para 2.2.3*

7 *C&AG's Report, PFI and Construction Performance (HC 371, Session 2002-03)*

The Accuracy of PSCs is Limited

22. As explained above, PSC costings are useful only in certain circumstances. Even then care is needed because they may not be as certain as they appear. There are various sources of these potential inaccuracies, some avoidable, some not.

They are inherently uncertain to a large degree

23. As a costing of a project that has not yet begun, the PSC is, of course, a forecast. That means it is, like all forecasts, inherently subject to uncertainty. And, what is more, it is a forecast of a very long term capital and operational project, maybe of 30 years or longer duration. That means that the degree of inherent uncertainty is very large. For example, in the PSC for the MOD Main Building project, the forecast costs ranged between £690 million and £807 million.[8]

24. The inherent uncertainty of the project being costed places a limit on the accuracy which can be achieved in the PSC, however much work or analysis may be done. There is no advantage in seeking to refine the PSC beyond that limit. Indeed there are potential disadvantages. That further work takes time and money, without adding anything to the value of the PSC as a decision tool. Worse than that, there is a clear risk that users of the PSC will believe that it is more accurate than it could ever be. In the absence of a proper understanding of the inherent uncertainties of the PSC, it may be presented as a more precise number than the inherent uncertainty of the project permits. Users of the PSC may then take decisions based on small apparent but spurious differences between the PSC and the PFI costing that in truth have no rational basis.

25. For these reasons, whenever a PSC is to be used, it should be an early task to estimate the inherent uncertainties to which it is subject, and then to use that information to determine when further refinement of the figure should cease.

They may be subject to bias

26. The projects for which PSC models are constructed are highly complex, and it is by no means an easy task to identify the most important factors driving costs in the project or to map out the relationships between these. Yet not to do this carefully and explicitly risks setting up a model in which input data are combined incorrectly, or the wrong inputs are used (or both). A potential consequence of this is bias in the results.

27. Bias will occur when there is an element of the cost of the PSC project which has been estimated on a basis that is inconsistent with the corresponding PFI costing. For example, bias would be introduced if the PSC costing did not take into account the full extent to which the estimated capital costs of the PSC project were optimistic. As there is evidence that public sector construction projects are typically subject to very substantial optimism bias, it is very important that that is fully recognised in the PSC costings. But in doing so, it is equally important not to over-estimate optimism bias, as that would produce a bias the other way.

28. Controlling for the risk of bias entails being as explicit as possible about the assumptions on which the PSC model is based. No modelling is possible without assumptions, but these should be reasonable and defensible. In all cases those preparing a PSC should strive to eliminate bias, or, at any rate to reduce its impact to below the level of the inherent uncertainty in the PSC, as described above. In some cases quantifying the bias will itself be subject to inherent uncertainty, which will add to that already present.

29. Examples of potential sources of bias are as follows:

8 *C&AG's Report, Redevelopment of MOD Main Building (HC 748, Session 2001-02), para 2.48*

- Mismatch between discount rate and private sector costs of capital. A PFI deal may provide better value for money than a conventionally financed project because it brings benefits which outweigh the additional financing costs private finance involves. Those financing costs are explicitly included in the bidder's financial model and hence in the price of the PFI deal. But the, lower, financing costs of the conventional public sector alternative to the PFI deal are not calculated explicitly. Instead, those financing costs are implicit in the discount rate which the Treasury recommends should be used to bring comparisons of cost onto a common basis. Now, private sector financing costs vary day by day in line with movements in the financial markets, but the Treasury discount rate is changed rarely. (For example it stood at 6% from 1989 to 2002.) That means that at best there may be a random variation between the public sector's actual financing costs, which also move day by day, and the cost implied by the discount rate. Such random variation increases the inherent uncertainty of the PSC. But, in addition, it has been argued that for several years up to 2002, the discount rate systematically overstated the public sector's financing costs. Such an overstatement would bias the PSC.
- Differential impact of taxation as between the PFI deal and the PSC project. As a PFI contractor usually accepts more risk in a PFI deal than under a conventional procurement there may be a corresponding increase in the amount of corporation tax payable by the contractor under the PFI. This reflects the higher return that the contractor will demand for accepting greater risk. There may also be tax payable on the return that the private sector funders earn from lending to the PFI contractor; this return would not feature in the conventionally funded project. The new Green Book[9] requires a tax adjustment to be made to the PSC if not doing so would materially distort the investment decision. Whilst the impact of tax clearly differs between the PFI and conventionally financed routes, it is very uncertain what this impact is. Contractors may be able to offset corporation tax payments against losses elsewhere, and funders may have to liquidate funds elsewhere in order to lend to a PFI contractor. Both these circumstances would have mitigating influences on the amount of tax payable. It is therefore very possible that the tax adjustment may add bias to the comparison of procurement routes.

They are prone to error

30. PSC costings are usually developed as a financial model represented in a spreadsheet. Frequently these models are very large and complicated. It is well established in academic research that large complex financial models are prone to error. And the larger and more complex the models are the harder it is to detect and eliminate such errors. Today's software packages make it easy to set up models with hundreds, or thousands, of input variables. However, a model with a relatively small number of inputs in which the rationale for the inclusion of each variable is clear, and the relationships between the variables are considered, may often be a more valid way of obtaining a costing than a model based on a vast number of inputs combined in an unconsidered manner.

31. Bidders' financial models are large and complex too, and it is now very common practice for financiers to require such models to be audited. It does not necessarily follow that a PSC should be audited. There is a crucial difference between the bidder's financial model and a PSC. The bidder's model effectively encapsulates the whole commercial deal, and is likely to be specified contractually as the means to be used to cost agreed changes as the deal progresses. The PSC, however, is no more than an aid to the exercise of judgement, and therefore needs to be no better than fit for that purpose. It is good practice, however, for the PSC, if used, to be examined by someone independent of the team preparing it.

There is scope for manipulation

32. As the public sector comparator is sometimes used, wrongly, as a key or even the key test of the value for money of a PFI deal for which alternative conventional funding may not be available, there may be an

9 *The Green Book: Appraisal and Evaluation in Central Government, 2003*

incentive to produce a comparator which is clearly more expensive than the PFI deal. In our recent report on the West Middlesex hospital deal we found that the hospital trust was concerned that an estimate showing the public sector comparator as cheaper than the PFI deal would prevent them obtaining departmental approval.[10] Additionally our report on the Dartford and Gravesham Hospital deal found that the hospital was unlikely to have been built in the near future if it were not for the PFI.[11] Given the inherent uncertainties, as described above, there is often scope to use assumptions well within the range of plausibility that will produce an apparent clear advantage in favour of the desired outcome.

The Preparation and Interpretation of PSCs Needs Care

33. Given all the constraints and limitations that have been described above it is clear that a great deal of care is needed when creating and interpreting PSCs. The preparation will require much expert input but will still be subject to inherent uncertainty and bias. The outputs need to be placed in the context of both this uncertainty and bias, as well as the limitation of questions that a PSC can help answer.

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10 C&AG's Report, The PFI contract for the redevelopment of West Middlesex University Hospital (HC 49, Session 2002-03) para 3.12

11 C&AG's Report, The Private Finance Initiative contract for the new Dartford and Gravesham Hospital (HC 423, Session 1998-99) para 7

Annex

National Audit Office and Public Accounts Committee Recommendations on Public Sector Comparators

National Audit Office Recommendations

The Private Finance Initiative contract for the redevelopment of West Middlesex University Hospital (HC 49, Session 2002-03)

The departmental approval processes for PFI projects should not, explicitly or implicitly, place undue emphasis on the need for projects to demonstrate savings, however small, against a PSC in order to gain approval. The emphasis should be on demonstrating value for money taking all benefits and disbenefits of the PFI approach into account. There is a risk that project teams may devote too much time refining their financial comparison calculations, at the expense of a more rounded and valuable assessment. Financial and wider non-financial should be considered in deciding whether to go ahead with a PFI procurement.

Redevelopment of MOD Main Building (HC 748, Session 2001-02)

There are significant uncertainties inherent in any public sector comparator. The actual costs of a conventionally procured project may fall within a wide range of possible costs. Departments should recognise this in making cost comparisons. In particular, they should be careful not to conclude that a PFI deal becomes better value for money if it is marginally less than a single figure estimate of the cost of conventional procurement. Given the uncertainties in the comparison, a more reasonable conclusion in that situation may be that the cost comparison shows there is little to choose between PFI and conventional procurement in cost terms.

As the MOD team did in this deal, departments should compare a proposed PFI deal with the best alternative option available before proceeding with the deal. Conventional procurement as modelled by a public sector comparator may not represent a true fall-back solution when closure of the deal approaches. But there may be other realistic alternatives, such as carrying out an alternative project with a reduced scope, which should be compared with the proposed PFI deal.

The Private Finance Initiative contract for the new Dartford and Gravesham Hospital (HC 423, Session 1998-99)

The costs of the Public Sector Comparator will include provision for possible cost overruns. The accuracy of these calculations might be improved by refining the data available on cost overruns on past traditional procurements to be consistent with the status of the cost estimates used in the Public Sector Comparator under review. The calculations of the various provisions for cost overruns should be reviewed carefully to avoid any possible double counting.

The Newcastle Estate Development Project (HC 16, Session 1999-2000)

Where the Private Finance option has a higher direct cost to taxpayers, departments should, before signing the deal, consider carefully the indirect benefits in terms of risks reduced or transferred to the private sector and the value to their operations of higher service quality. If quantification is not possible, they need to set out clearly and comprehensively how they have arrived at the conclusion that the unquantifiable benefits outweigh the quantifiable costs.

The contract to complete and operate the A74(M)/M74 Motorway in Scotland (HC 356, Session 1998-99)

The Department's assessment of the cost of traditional procurement reflected in their Public Sector Comparator, was based on sensible methods. We recommend that departments should: invite an independent contractor to participate in the development of the Public Sector Comparator as this can provide an important perspective on project risks; and adopt a value engineering approach in their assessment of the most economical public sector alternative.

The Skye Bridge (HC 5, Session 1997-98)

Departments will always have alternatives to accepting a private finance solution. Where a similar but publicly financed project is a realistic alternative, departments will have prepared a Public Sector Comparator. But where such a project is not an option departments should carry out and document a systematic financial comparison with the realistic alternative option or options to the privately financed deal that are available, such as doing nothing or achieving the same objectives in a quite different way. This will help departments to measure the value for money of the private finance deal, and should contribute to the discipline of any negotiation concerning its terms.

The contract to develop and operate the replacement National Insurance Recording System (HC12, Session 1997-98)

When assessing the value for money offered by bids, any Public Sector Comparators should be based on the best available information but the degree of precision required in any case should be considered before committing resources to the calculation of a comparator.

The New British Embassy in Berlin (HC 585, Session 1999-2000)

Departments should put themselves in a position to identify the reasons for major differences between the bids and the Public Sector Comparator, both in overall terms and in different elements such as construction and operating costs.

The first four Design, Build, Finance and Operate roads contracts (HC 476, Session 1997-98)

Where the result of a comparison is very sensitive to key assumptions, such as, the discount rate, there is a limit to how far it might be worthwhile refining the calculation. Spurious accuracy may result. In such cases a Public Sector Comparator provides indicative figures only.

Public Accounts Committee Recommendations

The PFI contract for the redevelopment of West Middlesex University Hospital (HC 55, Session 2002-03)

Spurious precision in public sector comparators is unproductive. When using a public sector comparator to aid decision-making on PFI deals, public authorities need to recognise the degree of uncertainty inherent in such comparators. In this case, the Trust's advisers strove to make slight adjustments to the calculations, well within the range of error inherent in costing a 35 year project, to ensure that the PFI cost appeared marginally cheaper than the public sector comparator. Yet this work added nothing to the quality of the Trust's decision-making on the deal.

Departments should base decisions on PFI deals on a realistic and comprehensive analysis of costs, benefits and risks. Instead of placing undue weight on the public sector comparator, the Trust should have attached importance in its assessment to wider factors such as the advantages of passing appropriate risk to the private sector and the potential risks involved in a contractually binding 35 year partnership.

Had the Trust properly followed the Treasury's long-standing guidance on investment appraisal, "the Green Book", is would not have pursued spurious precision in its public sector comparator nor would it have based its decision on the length of the contract on such inadequate analysis. Now that the Treasury has recently produced a revised version of its guidance, it should consider what further advice and training is needed to embed the new guidelines in departments' thinking.

Private Finance Initiative: Redevelopment of MOD Main Building (HC 298, Session 2002-03)

The public sector comparator gave a central estimate for the cost of a conventionally financed alternative to the PFI deal as £746.2 million, compared to an expected deal cost of £746.1 million. Such accuracy in long term project costings is spurious, and the small margin in favour of the PFI deal provides no assurance that the deal will deliver value for money.

The Private Finance Initiative contract for the new Dartford and Gravesham Hospital (HC 131, Session 1999-2000)

The preparation of Public Sector Comparators, and their comparison with the option of using the Private Finance Initiative, is a complex exercise. We therefore look to public sector bodies, to prepare public sector comparators carefully and we recommend that they should subject these to independent checking to minimise the risk of undetected errors.

The Public Sector Comparator did not take into account the improvements in traditional procurement which are now being achieved as a result of lessons learned on previous projects. Public bodies should not assume, when preparing such comparators, that their past performance will continue unchanged in the future, especially where that past performance has been particularly poor. We recommend that, instead, they should make reasonable assumptions about their ability to improve their future procurement performance.

The Newcastle Estate Development Project (HC 104, Session 1999-2000)

The Department did not prepare a Public Sector Comparator, which would have calculated the cost of constructing a similar estate using public funds. The deal will bring many benefits compared to the existing estate but this does not mean it will be better value for money than a conventionally-financed project. Many of the benefits relate to the improved working conditions and the improved reliability of accommodation resulting from new buildings. A proper value for money appraisal would have indicated which procurement option—public finance or a private finance deal—offered the best way of redeveloping the estate. The Department failed to conduct such an appraisal and hence the value for money of the deal is uncertain.

The Skye Bridge (HC 348, Session 1997-98)

Because every decision to proceed with a privately financed project must involve rejecting some alternative, systematic comparisons are the key to prudent decision making in this area. We criticised the Department for not having carried out such a comparison.

The contract to develop and operate the replacement National Insurance Recording System (NIRS 2) (HC 472, Session 1997-98)

Sound decisions as to whether a Private Finance Initiative solution offers value for money will normally require a systematic comparison to be made with a properly costed alternative option or options. In the case of NIRS2, the original Public Sector Comparator did not take account of efficiency improvements arising from the outsourcing of certain operations and did not therefore provide a realistic comparison. Where, as in this case, there is a very large difference between the comparator and the bids received, there may be grounds for checking both the reasonableness of the costings in the comparator and that the bidders have properly understood the required service specifications. In all cases, however, we expect departments to devote such resources to working up a comparator as are appropriate in the circumstances. The comparator should be robust enough to provide a sound guide to the exercise of judgement, but it does not necessarily have to be calculated to the finest accuracy.

The first four Design, Build, Finance and Operate roads contracts (HC 580, Session 1997-98)

The assessment of whether these four road projects are likely to offer better value for money than the conventionally procured alternatives rests on complex calculations. It also requires the exercise of judgement to define the costs of the conventional alternatives, to evaluate the benefits of transferring risks to the private sector, and to take account of differences in timing of payments of public money. We expect departments to carry out such assessments in a way which is sufficiently robust to support their decisions and which avoids spurious precision.

The PRIME Project—The Transfer of the Department of Social Security Estate to the Private Sector (HC 548, Session 1998-99)

We are not convinced that the Department's Public Sector Comparator fully reflected the potential for achieving efficiencies within the public sector. We recommend that in future departments preparing Comparators for deals of this kind do not assume that their past performance continues unchanged in the figure, particularly where that past performance has been unacceptably poor. We further recommend that, in preparing their Public Sector Comparators, departments make reasonable assumptions about the ability of the public sector to improve the efficiency of their estate management.

National Savings Public-Private partnership with Siemens Business Services (SBS) (HC 566, Session 1999-2000)

In reaching a decision on whether the proposed deal with SBS would be good value for money, National Savings prepared public sector comparators both on the basis that capital funding would be made available to modernise the operational service, and on the basis that such funding would be constrained by annual spending limits. Although the Private Finance Initiative deal had been considerably cheaper than the public sector comparators under both scenarios, the gap was much less if full public sector funding was assumed to be available. This illustrates the importance of constructing public sector comparators on the basis of unconstrained funding, and not just on a constrained basis, in order to reach a properly informed decision on the value for money of Private Finance Initiative deals.

Northern Ireland Assembly: Committee for Finance and Personnel; Best Practice Approach to Private Finance Initiative (PFI)

Paper by the National Audit Office

The Comptroller and Auditor General, Sir John Bourn, is the head of the National Audit Office employing some 850 staff. He and the National Audit Office are totally independent of Government. He certifies the accounts presented to the Westminster Parliament by Government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources. Our work saves the taxpayer millions of pounds a year, amounting to at least £8 for every £1 spent running the Office.

To this end the National Audit Office has, to date, published 61 reports (listed at Annex 2) in respect of the Private Finance Initiative (PFI) or other forms of Public/Private Partnerships (PPPs). A list of these reports is set out in Annex 2. These reports may be accessed at the National Audit Office website www.nao.gov.uk. The subjects examined reflect the wide range of uses to which the PFI/PPP has been put. Thus the reports cover deals for the provision of roads and other transport infrastructure, vehicles, prisons, hospitals, office accommodation, telecommunications, and IT systems. With many deals now in operation, our programme of value for money work also includes reviews of deals in operation, as well as cross-cutting reports, examining issues that affect most PFI/PPP deals.

We have also produced two reports dealing with the evaluation of value for money of PFI projects, first in 1999, based on early experience with PFI, and more recently in *A Framework for evaluating the implementation of PFI projects*, which updates and extends the earlier report to cover operational performance. Annex 1 to this paper summarises these NAO methodologies.

Annex 1: A framework for evaluating the implementation of PFI projects

In 1999, the National Audit Office reported on how it examined the value for money of deals reached under the Private Finance Initiative[12]. The analysis was based on four "pillars", each of which comprised a number of detailed aspects. The four pillars were:

- Make the project objectives clear;
- Apply the proper processes;
- Select the best available deal; and
- Make sure the deal makes sense.

That framework's primary focus was on issues that arise during the procurement and negotiation of deals, rather than on those arising during the life of a contract. At the time of the 1999 report, few deals had reached an established operational phase and it was not then possible to extend the framework to cover this aspect. The Treasury and the Office of Government Commerce (OGC) have produced substantial guidance to assist Authorities in the procurement and evaluation of PFI projects, including the 2004 Treasury publication *Value for Money Assessment Guidance* which set out a new approach to assessing the value for money of PFI[13]. Achieving value for money from PFI depends as much – if not more – on getting the required operational performance as on getting the best deal.

Discussions with external parties in the public and private sectors suggested to us that there was a substantial demand from those involved in designing and implementing PFI deals for an overarching framework for assessing whether PFI is being implemented effectively, particularly in relation to a project's operational phase. We did this in part by reviewing the outcomes of NAO reports on PFI and PPP projects that we have published. Our analysis then drew heavily on discussions with those in the private and public sectors including with Private Finance Units in four government departments, HM Treasury, Partnerships UK and 4Ps. In addition to existing official guidance, we also drew on the Treasury Budget 2006 publication, PFI - Strengthening Long-Term Partnerships, which focuses on improving value for money especially in managing the operational phase of PFI projects[14].

Our framework[15] comprises a series of management themes which span the various stages in the life of a PFI project, from "Strategic Analysis" to "Mature Operation". The essentials for evaluation for each management issues at each life cycle stage are summarised by high level indicators, each of which is supported by hierarchical sub-indicators. The further down the hierarchy, the more specific and detailed the sub-indicators become.

We identified six distinct life-cycle phases through which a PFI project passes, each involving a specific and separable set of issues that need to be considered. These six individual phases are:

1. **Strategic Analysis**. This phase covers the steps followed by a procuring Authority up to outline business case and the decision to procure through a PFI solution. This phase aligns with part of the

12 *National Audit Office: Examining the value for money of deals under the Private Finance Initiative (HC 739 1998-99)*

13 *HM Treasury: Value for Money Assessment Guidance (August 2004)*

14 *HM Treasury: PFI- Strengthening Long-term Partnerships, (2006)*

15 *National Audit Office: A framework for evaluating the implementation of PFI projects (May 2006)*

Stage 1 (the investment decision to go ahead with the project) and Stage 2 (the decision on how to procure the project) processes in the 2004 Treasury VFM guidance;

2. **Tendering**. This covers the steps undertaken up to the selection of a preferred bidder. This phase is equivalent to Stage 3 in the 2004 Treasury VFM Guidance;

3. **Contract Completion**. This relates to all the activity between selection of preferred bidder and financial close.

4. **Pre-Operational Implementation**. This covers the phase between contract close and the start of operational services with a new (or refurbished) asset. It covers procurements where the construction or delivery of infrastructure is part of the contract.

5. **Early Operational**. This relates to performance over the first three years after the start of operational services. Three years takes in the period of initial bedding down of the contract and the development of a long-term relationship between both parties.

6. **Mature Operational**. This covers performance from the beginning of the fourth year in which services are operational until the end of the contract[16].

Based on our discussions with private and public sector representatives and by considering our previous work, we were able to define six key business-management themes that apply at every phase of a PFI project:

- **The project fits with the business requirements of the Authority.** The project design should seek to be an optimal fit with the Authority's core business requirements and continue to deliver an optimal outcome.
- **PFI is the appropriate delivery mechanism.** The decision to procure through and continue with a PFI route must be clearly demonstrated and be considered better than any alternatives.
- **Stakeholders support the project's progress.** Relevant stakeholders should be engaged and satisfied with the development of the project and the Authority must manage stakeholder interests appropriately.
- **There is good quality project management.** The project management structure should be designed to ensure that outcomes from each phase are optimal for the business.
- **There is an optimal balance between cost, quality and flexibility.** The Authority needs to achieve and maintain a good value deal which is affordable, meets service requirements and provides a financial structure allowing for flexibility in the event of changing business needs.
- **Effective risk allocation and management is taking place.** Risks need to be placed with the party best able to deal with them and proper consideration given to the trade-off between transferring risks and the costs of doing so.

These six themes have been ordered to reflect the process of constructing an effective PFI deal and subsequently receiving the required services. For example, good quality project management is irrelevant if the project does not have the support of relevant stakeholders. In turn, stakeholders should not be engaged and managed if the Authority has not, at the least, already demonstrated that PFI is the appropriate delivery mechanism for a project that satisfactorily fits with its business requirements. Furthermore, the full benefits of good project management structures are only realised if the Authority is able to secure a deal that is affordable and has a good allocation and management of risks.

As all six business themes apply across all six project life-cycle phases, it is possible to set out the indicators in a matrix, as shown in Figure 1. Our framework can be used in a number of ways. Primarily it is intended to set out the principles which value for money auditors such as the National Audit Office

16 *Experience in this phase is limited to date, and it is likely that our framework will need to be amended as more experience and evidence accumulates.*

can apply. However, service managers and lead project officers can also use it to monitor and assess their own individual projects.

Private Finance Units also have an interest in individual PFI projects and can use the framework in the same way, but they also need to review PFI programmes as a whole. The OGC Gateway Review process defines an investment programme as "a portfolio of projects that have certain common characteristics and which are selected or commissioned, planned and managed in a co-ordinated way and which together achieve a set of defined business objectives"[17].

Programme evaluation also needs to take account of issues including:

- whether lessons from earlier projects have been applied to later ones to improve design and performance;
- whether the opportunities for economies of scale across projects have been exploited;
- whether the programme has been planned in a way that is sustainable within supply capacity.

Our framework is designed to be used by evaluators and is not official guidance, though it is consistent with and complements guidance such as that issued by the Treasury. The 2004 Treasury VFM Guidance sets out a range of requirements within the process, aimed at achieving good outcomes. Our framework provides a methodology for considering whether good outcomes in the process of implementation have been achieved. It remains important however that official guidance is used fully to achieve well designed and good value for money PFI projects in the first place.

17 *Office of Government Commerce: Gateway Review 0: Strategic Assessment*

Figure 1: The Matrix

Phase	Strategic Analysis	Tendering	Contract Completion	Pre-Operational Implementation	Early Operational	Mature Operational
Theme						
• The project fits with the business requirements of the Authority	• The best form of project to pursue has been selected • Top level specifications for the required services have been drawn up	• The output specifications in the tender properly address the business requirements • Robust payment and performance-measurement regimes are in place that clearly reflect optimal business requirements • The Authority is clear about its approach on balancing flexibility for change against price for the proposed deal	• The project strategy and likely outcome have been re-evaluated to ensure they are still in line with business needs • The contract meets the Authority's business requirements	• The asset is being delivered to contractual specification	• Service-provision outturn is meeting contractual requirements • The asset is fit for purpose • Where contractual services differ from business requirements, the Authority is acting to align them	• Service-provision outturn is meeting core business requirements • The asset if still fit for purpose and is maintained to a good standard
• PFI is the appropriate delivery mechanism	• The project has been assessed as being part of a suitable investment programme for PFI • There is a good outline business case justifying a PFI procurement route • The qualitative reasons for proceeding with PFI are clearly justified • The quantitative reasons for proceeding with PFI are clearly justified • Service performance under current arrangements has been baselined for future monitoring of PFI contractor performance • The optimal project structure for the Authority is acceptable to potential private sector partners and funders	• The Authority has encouraged innovation by allowing a range of solutions to be proposed • The Authority has checked that the justification for a PFI solution as contained in the business case still holds	• A review confirms that alternatives were evaluated and fairly eliminated	• The baselining of service provision has continued (to aid future assessment of PFI service quality)	• *[The Authority is sure that maintaining the PFI route is the best option in the event of poor construction outturn.]1*	• The Authority has improved its performance since the PFI asset became operational • Maintaining the PFI deal for future service provision is assessed as the best value for money

Phase	Strategic Analysis	Tendering	Contract Completion	Pre-Operational Implementation	Early Operational	Mature Operational
• Stakeholders support the project's progress	• A strategy is in place to communicate with stakeholders on an ongoing basis? • Relevant stakeholder groups have been consulted in producing the outline business case	• Key stakeholders have maintained commitment to the project	• Key stakeholders support the agreed deal	• Key stakeholders have been kept informed of project progress	• There is a good level of stakeholder satisfaction	• A good level of stakeholder satisfaction is being maintained
• There is good-quality project management	• Governance structures for the project have been set up • A realistic timetable for the procurement of the project has been laid out • A well resourced and experienced project team has been put in place for the procurement • The required form of consultation with staff and users during the procurement have been identified • The senior management input required for a successful procurement has been identified	• A good project team is maintained during the tendering phase • A clear and realistic tendering timetable is in place and maintained • Likely contract issues have been identified before the start of tendering • Procurement costs have been controlled • A clear process for evaluating bids and setting assessment criteria is in place • The Authority is clear about the required governance arrangements for the project once it is operational	• Good procurement management has been exercised during the preferred bidder stage • Appropriate contract-management arrangements are in place	• A good post-procurement evaluation has been carried out • All outstanding issues from contract close are resolved • There is provision for effective oversight and resolution of material problems arising • Systems are developed to deal with the new asset and service provision • Governance arrangements are still appropriate • Correct skills transfer within the public sector has taken place (from procurement to contract management)	• The governance structures are being used appropriately • Relationships between Authority and contractor are working well • The Authority ensures that the project team have appropriate skills and knowledge for good service provision	• The governance arrangements are still appropriate • Good and constructive relationships between both parties are being maintained • The Authority takes steps to ensure that the project team continue to have the appropriate skills and knowledge for good service provision • *[Has the Authority taken steps to plan for the end of the contract]2*

Phase	Strategic Analysis	Tendering	Contract Completion	Pre-Operational Implementation	Early Operational	Mature Operational
• There is an optimal balance between cost, quality and flexibility	• Market soundings have been made to generate maximum competition for a PFI solution • The Authority can be confident that the specification for the project will be affordable • The optimal balance of the proposed project has not been compromised by favourable accounting treatment	• Quality bids addressing core business requirements have been received • The economically most advantageous bid has been selected	• The deal is affordable in the short and long term • Competitive financing has been achieved • The final agreed deal is the economically most advantageous solution. • A review is conducted to ensure that accounting treatment has not compromised the deal's optimal balance	• Price increases only relate to new priority changes needed by the public sector on terms that are good value for money	• Affordability of the deal is being maintained • Both parties are seeking to maximise quality	• Affordability of the deal is being maintained • Both parties are seeking to maximise quality • Periodic benchmarking for price and quality is taking place
• Effective risk allocation and management is taking place	• The Authority has fully assessed risks associated with the project • The Authority has managed procurement risks well	• Risk best managed by the private sector is being transferred as part of the proposed contract • Procurement risks have been identified and risk-management procedures put in place	• The final agreed risk transfer contained in the contract has been reviewed for appropriateness • The Authority has a risk-management plan for use for when the contract goes live	• Risk-mitigation procedures are working properly	• The allocation of risk has been sustained operationally • The risk implications of changes to the contract are consistent with the risk that was originally transferred • The Authority's risk-management procedures are updated and working in line with changing circumstances	• Risk transfer remains optimal • The Authority's risk-management procedures are updated and working in line with changing circumstances • Accounting treatment for the asset remains consistent with the actual risk transferred to the private sector

Annex 2

National Audit Office:
Private Finance Reports (available at www.nao.org.uk)

The National Audit Office has published 61 reports on Private Finance subjects:

Title of report	Date published	Reference	Deal value £m
Building Deals			
2 DCMF prisons	31 October 1997	HC 253 1997/98	513
Dartford & Gravesham Hospital	19 May 1999	HC 423 1998/99	177
Berlin Embassy	30 June 2000	HC 585 1999/00	50
Ministry of Defence: The Joint Services Command and Staff College	7 February 2002	HC 537 2001/02	200
Redevelopment of MOD Main Building	18 April 2002	HC748 2001/02	746
Redevelopment of W Middlesex hospital	21 November 2002	HC 49 2002/03	125
PFI : The Laganside Courts (N.Ireland)	4 June 2003	HC 649 2002/03	40
PFI : The New Headquarters for the Home Office	15 July 2003	HC 954 2002/03	311
GCHQ : New Accommodation Programme	16 July 2003	HC955 2002/03	489
The Termination of the PFI Contract for the National Physical Laboratory	10 May 2006	HC 1044 2005/06	96
The Paddington Health Campus Scheme	19 May 2006	HC 1045 2005/06	-
Estates			
The PRIME project	23 April 1999	HC 370 1998/99	2,000
Newcastle Estate	25 November 1999	HC 16 1999/00	241
PFI: The STEPS Deal	7 May 2004	HC 530 2003/04	1,500
The expansion of the PRIME project	26 January 2005	HC 181 2004/05	2,000
Transport Deals			
Skye Bridge	23 May 1997	HC 5 1997/98	24
The first 4 DBFO roads	28 January 1998	HC 476 1997/98	560
A74(M) Motorway	9 April 1999	HC 356 1998/99	214
RAF Non Combat Vehicles	13 August 1999	HC 738 1998/99	19
Channel Tunnel Rail Link	28 March 2001	HC 302 2000/01	4,000
NATS	24 July 2002	HC 1096 2001/02	800
Improving public transport in England through light rail	23 April 2004	HC 518 2003/04	2,290

Title of report	Date published	Reference	Deal value £m
Network Rail – Making a Fresh Start	14 May 2004	HC 532 2003/04	21,000[18]
London Underground PPPs – were they good deals?	17 June 2004	HC 645 2003/04	15,700
London Underground – Are the Public Private Partnerships likely to work successfully?	17 June 2004	HC 644 2003/04	
IT Deals			
NIRS2	29 May 1997	HC 12 1997/98	44
Home Office IND Casework Programme	24 March 1999	HC 277 1998/99	77
UK Passport Agency	27 October 1999	HC 812 1998/99	240
MOD Fixed Telecoms	23 March 2000	HC 328 1999/00	612
National Savings	25 May 2000	HC 493 1999/00	635
DSS: Benefit Payments Card	18 August 2000	HC 857 1999/00	1,000
PPPs : Airwave (Police radios)	11 April 2002	HC 730 2001/02	1,470
New IT systems for Magistrates Courts : the LIBRA project	29 January 2003	HC 327 2002/03	318
Unlocking the past : the 1901 census online	14 November 2003	HC 1259 2002/03	8
Criminal Records Bureau PPP	12 February 2004	HC 266 2003/04	400
ASPIRE – the re-competition of outsourced IT services (including NIRS2 and HMRC PFI contracts)	19 July 2006	HC 938 2005/06	3,000
PRE-DEAL METHODOLOGY			
Examining the vfm of deals under the PFI	13 August 1999	HC 739 1998/99	-
London Underground PPP	15 December 2000	HC 54 2000/01	12,500
A framework for evaluating the implementation of PFI projects	15 May 2006	Good governance	-
Improving the PFI Tendering Process	8 March 2007	HC 149 2006/07	7,317
Pfi Projects in Progress			
Royal Armouries	18 January 2001	HC 103 2000/01	80
NIRS2 Contract extension	14 November 2001	HC 355 2001/02	70
PFI Construction performance	5 February 2003	HC 371 2002/03	-
National Savings and Investments deal with Siemens Business Services : four years on	8 May 2003	HC 626 2002/03	635
The operational performance of PFI prisons	18 June 2003	HC 700 2002/03	1,800
Darent Valley Hospital : The PFI contract in operation	10 February 2005	HC 209 2004/05	252
Progress on the Channel Tunnel Rail Link	21 July 2005	HC 77 2005/06	4,000
Benchmarking and market testing the ongoing services component of PFI projects	6 June 2007	HC 453 2006/07	-

18 This is the maximum value of the public sector financial support for Network Rail borrowing

Title of report	Date published	Reference	Deal value £m
Financing			
Fazakerley prison refinancing	29 June 2000	HC 584 1999/00	11
Innovation in PFI Financing: The Treasury Building project	9 November 2001	HC 328 2001/02	170
PFI refinancing update	7 November 2002	HC 1288 2001/02	65
Refinancing of the PPP for NATS	7 January 2004	HC 157 2003/04	730
The refinancing of the Norfolk and Norwich PFI Hospital : how the deal can be viewed in the light of the refinancing	10 June 2005	HC 78 2005/06	1,300
Update on PFI debt refinancing and the PFI equity market	21 April 2006	HC 1040 2005/06	137
Managing Relationships			
Managing the relationship to secure a successful partnership in PFI projects	29 November 2001	HC 375 2001/02	-
Wider Markets			
Radiocommunications Agency	8 December 2000	HC 21 2000/01	52
Delivering the Commercialisation of Public Sector Science	8 February 2002	HC 580 2001/02	-
New Forms of PPP			
Innovation in the NHS : acquisition of the Heart Hospital	19 December 2002	HC 157 2002/03	27
Cambridge-MIT Institute (research partnership with external funding)	17 March 2004	HC 362 2003/04	81
Innovation in the NHS : LIFT	19 May 2005	HC 28 2005/06	711
The Shareholder Executive and Public Sector Businesses	28 February 2007	HC 255 2006/07	-
Risk Management			
Risk Management: The Nuclear Liabilities of British Energy plc	6 February 2004	HC 264 2003/04	2,100
			85,710

These reports can be obtained from The Stationery Office (their London Bookshop is 123 Kingsway, London WC2B 6PQ), the Parliamentary Bookshop (12 Bridge Street, Parliament Square, London SW1A 2JX) or they may be accessed at the National Audit Office website www.nao.org.uk The recommendations set out in the above reports can be accessed at the NAO PFI recommendations database: www.nao.org.uk/recommendation.

In addition to the Private Finance reports set out above the NAO has reported on the sale of various public assets, including:		
The Sale of Part of the UK Gold Reserves	12 January 2001	HC 86 2000/01
The auction of Radio Spectrum for the Third Generation of Mobile Telephones	19 October 2001	HC 233 2001/02.
Regeneration of the Millennium Dome and associated land	12 January 2005	HC 178 2004/05
The Wider Markets Initiative	27 January 2006	HC 799 2005/06

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22nd June 2007

Dear Mr McAteer,

Laganside Courts

Thank you for your letter dated 15th June and for inviting the Northern Ireland Court Service to comment on its experience of the procurement and management of the Laganside Courts PFI project. You are already familiar with the value for money report on Laganside Courts published by the National Audit Office in 2003.

Background

In 1994 the Court Service acknowledged the need to replace the Crumlin Road Courthouse. A number of options were considered one of which was the use of a Private Finance Initiative. The key dates in the project timetable were:

August 1997	-	OJEC Advertisement
December 1997	-	Tender Documentation Issued
April 1998	-	Supplier responses received
October 1998	-	Final contract negotiations
February 1999	-	Project Commencement
December 2001	-	Laganside Courts handed over to Court Service

The contract was awarded to Consul Services Ltd, a special purpose vehicle made up of a consortium of 3 companies, Karl Construction, JH Turkington Ltd and Jarvis Facilities Management. Construction of the complex took 18 months to complete.

Accommodation

In terms of accommodation and facilities the building covers 1,400sq metres and has an occupancy level of 2,305sqm spread across 4 levels.

Concession Agreement

Construction cost was £30m. The building comprises 16 courtrooms, administrative offices, prosecution offices, witness and victims facilities. A separate secure area provides judicial retiring rooms and conference facilities, with catering provided on site for all building users. The key stakeholders consulted during the design and build were Public Prosecution Service, Probation Service, Witness Protection Services, Victim Support, NI Prison Service, Law Society, NI Bar and NSPCC most of which now have accommodation within the building. The building houses Crown Court, County Court and Magistrates' Court courtrooms and offers the flexibility to change between these categories according to business need.

The Concession Agreement covers a 25 year period and service provision includes:

- Facilities management
  - management of services
- Building Management
  - service maintenance
  - fabric maintenance
  - grounds maintenance
  - internal planting
  - energy and utilities
- Accommodation Services
  - cleaning
  - waste disposal
  - pest control
  - catering & vending
- Office Support Services
  - security
  - reception
  - porterage
  - post room
  - reprographics
  - telecommunications

The Agreement was re-financed in September 2005 during which two of the three companies involved in the consortium bought out the third's (Jarvis Workplace plc) share of Consul Services Ltd. The remaining partners established Consul FM who subsequently assumed responsibility for the provision of the Facilities Management (FM) services previously provided by Jarvis.

Performance Measurement

Services are measured against performance criteria agreed before the Department took occupancy of the building. These criteria are based on service levels assessed against the key FM services each with a business priority level detailing the time allowed for any repair or reinstatement of the service.

Service faults are logged as major or minor incidents and, depending on the time taken to respond to an incident, a formula is applied to calculate a monthly abatement in respect of any failures. Each month a comprehensive report is provided by the FM provider which is validated against Court Service records and used to prepare the monthly invoice documentation.

Contract and Service Management

Management of the contract and its services is now the responsibility of the NI Court Service Contract Management Unit and revised enhanced contract and service management procedures have been applied.

The Agreement is currently managed by a Court Service Manager and deputy manager who are responsible for contractual issues, service delivery standards, change controls, performance failures, customer surveys, complaints, energy management and efficiency incentives. They are supported by a small on site team located within the Laganside Courts Complex who monitor the services on a daily basis, logging faults, signing off completed faults, escalating issues, raising change requests, etc. A Court Service Contract Manager oversees the work of both teams and manages any contractual issues or disputes.

Service delivery is closely monitored and contract meetings take place on a monthly basis. Service reviews are held between the FM Manager and NICtS Service Manager on a fortnightly basis. Meetings are also held regularly with building tenants such as Public Prosecution Service, Prison Service, etc. The Service Management Team also conducts regular unannounced inspections in relation to cleaning standards, PPM work and building fabric inspections. These arrangements are working well.

Key Lessons Learned

The Laganside Agreement was one of the initial PFI Agreements and in common with similar major projects there are a number of lessons that with hindsight might have made management of the subsequent service delivery less cumbersome and agreed quality standards easier to enforce.

The key lesson learnt is that whilst the Concession Agreement covered the design and build stages of the project in sufficient detail, there was a lack of sufficient focus on management procedures and respective roles and responsibilities during the operational period particularly with regard to managing poor performance and ensuring the required standards of service would be maintained. We would suggest that more attention needs to be paid during the procurement phase to the establishment of appropriate contract management and governance procedures and ensuring a smooth transition from procurement to construction, and from construction to the operational phase.

In discussions with the provider the Court Service implemented a revised and robust approach to service management. Annex 1 summarises a number of issues that the Court Service considers important to protect the position of the Authority and help ensure compliance on the part of the Service Provider.

The contract duration is lengthy and although there have been only minor changes since its commencement, the possibility exists that over a 25 year period there might be a need to vary the services provided significantly in response to changing business needs. The change control mechanism should be flexible and responsive enough to deal with such major alterations efficiently and effectively.

Based on Court Service experience the importance of having skilled and experienced resources in-house, and the associated cost, to manage the external provider should not be under-estimated. Payment mechanisms can be complex and specific PFI training and development of contract management skills would be an advantage.

Summary

The Laganside project has delivered an important and prestigious facility for the administration of justice in Northern Ireland. The current arrangements continue to provide satisfactory facilities for all the users of the court complex and meet the business needs of the Court Service. It is acknowledged that there were problems initially in the early days of the project but these have been satisfactorily resolved. Laganside is the flagship venue within the court estate and the standard of facilities and general condition remain consistent with the levels expected of a major public building.

If I can provide any further information to the Committee please do not hesitate to contact me.

Yours sincerely,

Mark Radcliffe

Annex 1

Summary of issues relating to operational management which should be included within the main PFI Agreement.

- Stringent methods of abatements to produce and maintain quality service.
- Overall performance scores should allow abatement for poor service in specific areas.
- A method should exist to penalise poor service within each service element.
- The contract should not only cover the building of the premises but also contain detailed clauses on the operational terms and conditions.
- Categories/priorities of faults and resolution times should reflect the impact on business.
- Categories/priorities of faults and resolution times should be agreed before signature of contract.
- The contract should state that authority/customer has final say on what category/priority a faulty is raised at with the helpdesk.
- If security of the premises is the responsibility of the FM Service Provider then vandalism must be their risk. This should be clearly stated in the contract.
- All utility charges and methods for dealing with such charges should be clearly defined in the contract.
- Where changes are required to the original design during the build ensure that a stringent change control system is in place to clearly document the process.
- No change work should be carried out until the change and costs are agreed and signed off by both parties.
- Any additional costs should include FM and lifecycle costs.
- The issue of responsibility for capital purchases should be clearly defined.
- The contract should contain specific references to the number of staff being provided by the FM service provider under the contract and what provisions will be made in respect of cover for absences.
- The contract should contain standards to which each member of the FM service provider's staff will be trained to carry out their individual roles.
- Staffing structure of FM Provider should be included in the Agreement together with clearly defined job descriptions.

Footnotes

1 This indicator is only applicable in the event of the asset being deemed to be totally inappropriate for the Authority's business requirements.

2 This indicator need only be considered when the PFI contract is nearing its end.

3 This is the maximum value of the public sector financial support for Network Rail borrowing.

Assembly Section

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15 June 2007

Dear Shane,

WORKPLACE 2010 & LOCATION OF PUBLIC SECTOR JOBS

Following the briefing by DFP officials at the Committee meeting on 6 June on Workplace 2010 and the Location of Public Sector Jobs you wrote to me on 11 June requesting additional information on the two issues. I have attached separately to this letter:-.

- a list of the Workplace 2010 estate (i.e those buildings that would transfer to the private sector partner), details of freehold/leasehold and lease expiry dates;
- a list of buildings in the residual estate with details of freehold/leasehold and lease expiry dates;
- a spreadsheet setting out the Workplace 2010 position on PAC recommendations between 2003 and 2006;
- a summary of the consultation responses on the Guiding Principles on the Location of Public Sector Jobs in NI.

You also asked a question on staff numbers. Colleagues in the Workplace 2010 programme confirm that there is likely to be approximately 18,000 staff affected by the WP2010 Strategic Development Plan.

I hope this is helpful and addresses this set of queries. I will get back to you on Monday in response to your subsequent letter dated yesterday.

Yours sincerely,

Norman.

NORMAN IRWIN

Workplace 2010 Estate

Property Number	Name	Address		Postcode	Status	Lease Expiry
P631	Adelaide House	39/49 Adelaide Street	Belfast	BT2 8FD	O	
P579	Castle Court	Royal Avenue	Belfast	BT1 1DF	LL	31/12/2115
P670	Causeway Exchange	1/9 Bedford Street	Belfast	BT2 7LJ	L	04/04/2019
P463	Centre House	79 Chichester Street	Belfast	BT1 4JE	L	30/11/2008
P476	Clarence Court	10/18 Adelaide Street	Belfast	BT2 8GB	O	
P663	Design Centre	39 Corporation Street	Belfast	BT1 3BB	L	31/12/2008
P484	Ferguson House Floors 3 &4	13 Wellington Place	Belfast	BT1 6GB	L	31/10/2010
P484	Ferguson House Flrs 3,4,6 & 7	13 Wellington Place	Belfast	BT1 6GB	L	31/01/2014
P671	Goodwood House	44/58 May Street	Belfast	BT1 4NN	L	15/04/2019
P438	Hydebank	4 Hospital Road	Belfast	BT8 8JL	O	
P651	Interpoint	18 York Street	Belfast	BT15 1AQ	L	30/06/2006
P678	James House	2/4 Cromac Avenue	Belfast	BT7 2JB	L	31/10/2018
P689	Klondyke Building	Cromac Avenue	Belfast	BT7 2DH	L	31/01/2022
P684	Lesley Exchange	1 Mays Meadow	Belfast	BT1 3PH	L	31/10/2014
P677	Lighthouse Building	1 Cromac Place	Belfast	BT7 2JB	L	03/06/2019
P611	Lincoln Building	27/45 Great Victoria Street	Belfast	BT2 7SL	L	31/01/2013
P667	Millennium House	17/25 Great Victoria Street	Belfast	BT2 7BN	L	02/05/2014
P638	River House	48 High Street	Belfast	BT1 2AW	L	14/03/2009
P675	Waterfront Plaza	8 Laganbank Road	Belfast	BT1 8LX	L	05/02/2019
P643	Windsor House Floors 6 - 12 & 15	9 Bedford Street	Belfast	BT2 7EL	L	31/03/2011
P411	Castle Buildings	Stormont Estate, Upper Newtownards Road	Belfast	BT4 3SJ	O	
P411	Castle Buildings Annex 1-7	Stormont Estate, Upper Newtownards Road	Belfast	BT4 3SJ	O	
P614	Craigantlet Buildings	Stormont Estate, Upper Newtownards Road	Belfast	BT4 3SX	O	
P401	Dundonald House	Stormont Estate, Upper Newtownards Road	Belfast	BT4 3SB	O	
P402	Dundonald House-Anx A	Stormont Estate, Upper Newtownards Road	Belfast	BT4 3SB	O	
P403	Dundonald House-Anx D	Stormont Estate, Upper Newtownards Road	Belfast	BT4 3SB	O	
P619	Dundonald House-Anx B	Stormont Estate, Upper Newtownards Road	Belfast	BT4 3TB	O	
P626	Dundonald House-Anx C	Stormont Estate, Upper Newtownards Road	Belfast	BT4 3SF	O	
P642	Hillview Buildings	Stormont Estate, Upper Newtownards Road	Belfast	BT4 3SG	O	

Property Number	Name	Address		Postcode	Status	Lease Expiry
P696	Knockview Buildings	Stormont Estate, Upper Newtownards Road	Belfast	BT4 3SG	O	
P624	Massey House	Stormont Estate, Upper Newtownards Road	Belfast	BT4 3SX	O	
P452	Netherleigh	1 Massey Avenue	Belfast	BT4 2JP	O	
P412	Rosepark House	Upper Newtownards Road	Belfast	BT4 3NR	O	
P419	Rathgael House	43 Balloo Road	Bangor	BT19 7PR	O	
P802	County Hall	182 Galgorm Road	Ballymena	BT42 1QG	O	
P863	Carlisle House	Hawkin Street	Londonderry	BT48 6RE	L	31/10/2017
P803	County Hall	7 Castlerock Road	Coleraine	BT51 3HS	O	
P806	Coleraine JBO	8 Artillery Road	Coleraine	BT52 2AE	O	
P201	Marlborough House	2 Central Way Craigavon	Craigavon	BT64 1AD	O	
P832	Orchard House	40 Foyle Street	Londonderry	BT48 6AT	O	
P258	Rathkeltair House	87 Market Street	Downpatrick	BT30 6AJ	O	
P856	Waterside House	75 Duke Street	Londonderry	BT47 6FP	O	
P460	Andersonstown SSO	35/37 Slieveban Avenue	Belfast	BT11 8HL	O	
P483	Bangor SSO	110 Hamilton Road	Bangor	BT20 4LS	L	01/01/2012
P445	Corporation Street SSO	24/42 Corporation Street	Belfast	BT1 3DR	O	
P448	Falls Road JBO	19 Falls Road	Belfast	BT12 4PH	O	
P415	Holywood Road JBO	106/108 Holywood Road	Belfast	BT4 1JU	O	
P417	Knockbreda JBO	210 Upper Knockbreda Road	Belfast	BT8 6SX	O	
P418	Newtownabbey JBO	39/41 Church Road	Newtownabbey	BT36 7LG	O	
P607	Shaftesbury Square JBO	Conor Building Great Victoria Street	Belfast	BT2 7AG	L	31/03/2008
P416	Shankill JBO	15/29 Snugville Street	Belfast	BT13 1NB	O	
P808	Antrim JBO	90 Castle Street	Antrim	BT41 4JE	O	
P209	Armagh JBO	10/12 Alexander Road Armagh	Armagh	BT61 7JL	O	
P826	Twickenham House	59/71 Mount Street	Ballymena	BT43 6BT	L	31/01/2008
P811	Ballymoney JBO	37/45 John Street	Ballymoney	BT53 6DT	O	
P210	Ballynahinch SSO	18 Crossgar Road	Ballynahinch	BT24 8XP	O	
P211	Banbridge JBO	18 Castlewellan Road Banbridge	Banbridge	BT32 4AZ	O	
P480	Carrickfergus JBO	1 Davy's Street	Carrickfergus	BT38 8DJ	O	
P106	Cookstown SSO	38/40 Fairhill Road	Cookstown	BT80 8AG	O	
P212	Downpatrick SSO	9/11 Mount Street	Downpatrick	BT30 6AU	O	
P101	Dungannon JBO	36 Thomas Street	Dungannon	BT70 1EN	O	
P105	Enniskillen JBO	14 Queen Elizabeth Road	Enniskillen	BT74 7JD	O	
P805	Foyle JBO	14 Asylum Road	Londonderry	BT48 7EA	O	

Property Number	Name	Address		Postcode	Status	Lease Expiry
P214	Newcastle SSO	2 Beverley Gardens Valentia Place Newcastle	Newcastle	BT33 0EH	O	
P215	Newry JBO	Phoenix House 40 Bridge Street	Newry	BT35 8AJ	O	
P213	Kilkeel JBO	58 Newry Street Kilkeel	Kilkeel	BT34 4DR	O	
P482	Larne JBO	59 Pound Street	Larne	BT40 1SB	O	
P825	Limavady JBO	9 Connell Street	Limavady	BT49 0TZ	O	
P221	Lisburn JBO	Bow House 61/73 Bow Street	Lisburn	BT28 1BB	L	30/04/2015
P855	Lisnagelvin JBO	2 Crescent Road	Londonderry	BT47 2NJ	O	
P827	Magherafelt JBO	31 Station Road	Magherafelt	BT45 5DN	O	
P222	Lurgan JBO	10 Alexandra Crescent	Lurgan	BT66 6BB	O	
P454	Newtownards SSO	6 East Street	Newtownards	BT23 3EN	O	
P102	Omagh JBO	19 Mountjoy Road	Omagh	BT79 7BB	O	
P216	Portadown JBO	84/140 Jervis Street	Portadown	BT62 3DA	O	
P104	Strabane SSO	18 Urney Road	Strabane	BT82 9AD	O	
P432	Mark Royal House	70/74 Donegall Street	Belfast	BT1 2GU	O	
P674	Clare House	303 Airport Rd West	Belfast	BT3 9ED	L	2021

Residual Estate

Property Number	Name	Address		Postcode	Status	Lease Expiry
P220		2 Newry Road	Armagh	BT60 1EN	L	31/08/2008
P255	Dobbin Centre	Dobbin Lane, Dobbin Centre	Armagh	BT61 7QP	L	31/08/2004
P263	Mall West	The Mall	Armagh	BT61 9BL	O	
P864	DARD	5A Fairhill Street	Ballycastle	BT54 6AY	L	31/07/2007
P633	Ballyclare CBO	29 Hillhead Road	Ballyclare	BT39 9DU	O	
P697		50 The Square	Ballyclare	BT39 9BB	L	06/08/2009
P118	Ballygawley AO	2 Church Street	Ballygawley	BT70 2HB	L	31/10/2007
P801	Crown Buildings	2/14 George Street	Ballymena	BT43 5AP	O	
P815	DEL	35/39 Bridge Street	Ballymena	BT43 5EL	L	31/05/2007
P824	Kilpatrick House	38/54 High Street	Ballymena	BT43 6DT	L	31/10/2016
P854	Academy House	121A Broughshane Street	Ballymena	BT43 6BA	O	
P861	DEL	48/50 Linenhall Street	Ballymena	BT43 5AL	L	19/07/2009
P862	Ecos Centre	Kernohan's Lane	Ballymena	BT43 7QA	L	31/08/2006

Property Number	Name	Address		Postcode	Status	Lease Expiry
P866		62 Church Street	Ballymena	BT43 6DF	L	10/02/2015
P867	Trillick House	49 Queen Street	Ballymoney	BT53 6JD	L	30/04/2015
P235	DARD	6/8 Scarva Street	Banbridge	BT32 3DA	L	30/09/2010
P241	DRD Roads	45 Newry Street	Banbridge	BT32 3EA	L	31/05/2009
P266	Banbridge Investigation Unit	2/4 Scarva Street	Banbridge	BT32 3DA	L	31/03/2009
P273	Banbridge Business Centre	62 Scarva Street	Banbridge	BT32 3QD	L	06/12/2007
P410	Balloo Road Store	41 Balloo Road	Bangor	BT19 2PG	L	31/01/2009
P449	DEL	65 High Street	Bangor	BT20 5BE	L	31/05/2012
P407	Stormont Castle	Stormont Estate, Upper Newtownards Road	Belfast	BT4 3ST	O	
P414	H &SENI	83 Ladas Drive	Belfast	BT6 9FR	O	
P421	Calvert House	Castle Place	Belfast	BT1 1FY	L	17/04/2011
P422	Health Estates	Stoney Road	Belfast	BT16 1US	O	
P429	Fermanagh House	Ormeau Avenue	Belfast	BT2 8NJ	O	
P430	Bedford House	16/22 Bedford Street	Belfast	BT2 7FD	L	29/04/2014
P434	Oxford House	45/49 Chichester Street	Belfast	BT1 4HH	L	12/03/2014
P436	Londonderry House	21 Chichester Street	Belfast	BT1 4JJ	L	01/12/2010
P447	Northland House	3/5 Frederick Street	Belfast	BT1 2NR	O	
P457	DEL	56 Ann Street	Belfast	BT1 4EG	O	
P459	Gloucester House	57/63 Chichester Street	Belfast	BT1 4RA	L	12/03/2014
P461	Magnet House	81/83 York Street	Belfast	BT15 1SS	L	31/05/2012
P469	Hampden House, Belfast	55 Royal Avenue	Belfast	BT1 1TX	L	31/07/2005
P474		20/24 Donegall Street	Belfast	BT1 2GP	L	31/07/2008
P478		34 College Street	Belfast	BT1 6DR	O	
P491	State Buildings	1/7 Arthur Street	Belfast	BT1 4HG	L	31/08/2011
P557	Villa 1	37 Massey Avenue	Belfast	BT4 3TA	O	
P558	Villa 2	39 Massey Avenue	Belfast	BT4 3TA	O	
P576	Queens Court	56/66 Upper Queen Street	Belfast	BT1 6FD	O	
P586	Middleton Building, Belfast	4/10 High Street	Belfast	BT1 2BA	L	31/08/2009
P587	Lancashire House	5 Linenhall Street	Belfast	BT2 8AA	L	31/12/2009/ 15/09/2007
P588	York House	2 Curtis Street	Belfast	BT1 2ND	L	30/04/2009
P589	Bankmore House	Bankmore Street	Belfast	BT2 7FH	L	31/01/2015
P595	Longbridge House	12/24 Waring Street	Belfast	BT1 2EB	L	15/11/2015
P599	Waterman House	5/33 Hill Street	Belfast	BT1 2LA	L	31/07/2015
P602	Victoria Hall	12 May Street	Belfast	BT1 4NL	O	
P608	Falls DSU	43/45 Falls Road	Belfast	BT12 4PD	O	
P609	Park House	87/89 Great Victoria Street	Belfast	BT2 7AG	L	30/06/2007
P621	TLEB	148/158 Corporation Street	Belfast	BT1 3DH	O	

Property Number	Name	Address		Postcode	Status	Lease Expiry
P634	Units 2&3 St John's Court	734 Upper Newtownards Road	Belfast	BT16 0RJ	L	31/08/2011
P640	Arches Centre	Bloomfield Avenue	Belfast	BT5 5HD	L	14/03/2011
P646	McAuley House	Castle Street	Belfast	BT1 1SA	L	30/06/2008
P648	DEL	Kennedy Shopping Centre	Belfast	BT11 9AE	L	06/03/2011
P653	Avenue House	42/44 Rosemary Street	Belfast	BT1 1QT	L	26/11/2010
P658	Lesley Buildings	61 Fountain Street	Belfast	BT1 5EX	L	31/07/2011
P662	Elizabeth House	116/118 Holywood Road	Belfast	BT4 1NY	L	31/07/2010
P666	McKelvey House	25/27 Wellington Place	Belfast	BT1 6GQ	L	09/01/2014
P668	Units 6 8 Oakbank	Channel Commerical Park	Belfast		L	31/01/2018
P673	SSA Superstore	Dargan Crescent	Belfast	BT3 9JP	L	18/09/2018
P679	Colby House	Stranmillis Road	Belfast		L	31/07/2009
P691	Carleton House	1 Cromac Avenue	Belfast	BT7 2JA	L	05/01/2020
P694	Queens House	10/18 Queen Street	Belfast	BT1 6ED	L	08/12/2015
P699	Rosepark Workshops	Upper Newtownards Road	Belfast	BT4 3NR	O	
P119	DRD Roads Cookstown	33 Molesworth Street	Cookstown	BT80 8NX	L	30/11/2007
P138	DEL	17 Oldtown Street	Cookstown	BT80 8EE	L	31/08/2009
P160	DARD	14 Fair Hill Cookstown	Cookstown	BT80 8AG	L	31/07/2006
P264	Crossmaglen CBO	Unit 2 Enterprise Centre, North Street	Crossmaglen	BT35 9AB	L	Qtr to Qtr
P148	Dungannon DSU	5 Thomas Street	Dungannon	BT70 1HW	L	31/07/2011
P111	County Building Enniskillen	15 East Bridge Street	Enniskillen	BT74 7BW	O	
P112	Castle Barracks Enniskillen	39 Wellington Place	Enniskillen	BT74 7HN	O	
P151	Inishkeen House	21 LoughYoan Road	Enniskillen	BT74 4EJ	O	
P158	Enniskillen MEC	Diamond House 2 Eden Street	Enniskillen	BT74 7EG	L	30/09/2005
P172	DARD	Moneykee Business Park Kesh Road	Irvinestown	BT94 1FZ	L	31/08/2006
P259	Kilkeel AO	3 Bridge Street	Kilkeel	BT34 4AD	L	28/02/2009
P817	Limavady DFO	4/6 Killane Road	Limavady	BT49 0DN	O	
P840	Roads Service	86 Main Street	Limavady	BT49 0ET	O	
P227	Lisburn AO	4/6 Bachelors Walk	Lisburn	BT28 1XJ	O	
P244	VLA Lisburn	1 The Sidings, Antrim Road	Lisburn	BT28 3AJ	O	
P150	Lisnaskea AO	314 Gola Road	Lisnaskea	BT92 0FE	O	
P830	Roads Service	1 Crescent Road	Londonderry	BT47 2NQ	O	
P833	Water Service	1A Belt Road Altnagelvin	Londonderry	BT47 2LL	O	
P841	Richmond Chambers	Richmond Chambers	Londonderry	BT48 6HN	L	19/04/2018
P858	Northside CBO	15 Northside Village Centre, Shantallow	Londonderry	BT48 8NN	L	31/10/2012

Property Number	Name	Address		Postcode	Status	Lease Expiry
P853	DARD	12A Coleraine Road	Maghera	BT46 5BN	L	31/01/2008
P224	DEL	109/113A Main Street	Newcastle	BT33 0AE	L	31/05/2006
P229	Newcastle AO	127 Main Street	Newcastle	BT33 OAE	L	30/04/2009
P262	Glenree House	Carnbane Industrial Estate, Tandragee Road	Newry	BT35 6EF	O	
P268	Newry MEC	Health Village, Monaghan Street	Newry	BT35 6BB	L	30/06/2008
P453	Newtownards DVO	9 Robert Street	Newtownards	BT23 4DN	L	31/01/2008
P455	DARD	2B Portaferry Road	Newtownards	BT23 3NT	O	
P456	DEL	7/9 Conway Square	Newtownards	BT23 4DA	L	31/07/2008
P625		4 Glenford Way	Newtownards	BT23 4BX	L	31/12/2007
P113	County Hall Omagh	5 Mountjoy Road	Omagh	BT79 7AF	O	
P115	Omagh Rural Dev	21 Hospital Road	Omagh	BT79 0AN	O	
P143		15/17 High Street	Omagh	BT78 1BA	L	31/08/2004
P149	Roads Service	32 Deverney Road	Omagh	BT79 0JJ	O	
P156	Sperrin House	4 Sedan Avenue	Omagh	BT79 7AQ	L	31/01/2015
P164	Boaz House	15 Scarffes Entry	Omagh	BT78 1JG	L	10/04/2020
P167	Kelvin Buildings	45 Kelvin Avenue	Omagh	BT78 1ER	L	30/11/2007
P171		31 Market Street	Omagh	BT78 1EE	L	30/06/2006
P128	DARD	Derbrough Road	Plumbridge	BT78 4DA	DRD Owned	
P202	Rate Collection Agency	16 West Street Portadown	Portadown	BT62 3PD	L	22/01/2021
P270	Magowan Buildings	23/27 West Street	Portadown	BT62 3PN	L	31/05/2008
P117	DRD Roads Strabane	20 Derry Road	Strabane	BT82 8DX	O	
P166	DEL	23 Upper Main Street Strabane	Strabane	BT82 8AS	L	09/06/2016
P168	DARD	Units 14 & 15 Orchard Rd Ind Estate Strabane	Strabane	BT82 9FR	L	17/01/2009

Workplace 2010: Assessment of 2003-2006 PAC Reports

Year	PAC Report	PAC Recommendation	Key learning point/ recommendation	WP 2010 position
2003/2004	Government Communications Headquarters (GCHQ): New Accommodation Programme	01. It is unwise to enter negotiations with a preferred bidder when key requirements have not been settled and priced. In this case there was a 21 month period of exclusive negotiations before the contract was signed in June 2000 during which time the price increased by 21%, not wholly in a competitive environment. When a preferred bidder is selected before all key requirements have been negotiated, the contractor is inevitably at a price advantage in closing the deal.	Ensure that the requirements are settled and priced before entering into negotiations with a preferred bidder.	The WP2010 BAFO strategy includes negotiation and capture of all material commercial requirements in a memorandum of understanding before moving to the preferred bidder stage.
		02. Major change programmes need to be managed as such from the outset. Any move of headquarters is likely to require numerous projects in addition to the building itself and to changes in working practices. In this case, which obviously was bound to involve a major technological move, GCHQ continued to perceive it as a building project for far too long. It was nearly three years after a PFI solution for its accommodation was first explored that GCHQ recognised the move as a major programme and designated it as such.	Major programmes of this nature are much more than accommodation projects and should be designated as major change programmes.	WP2010 is recognised as a major reform project and is supported by a number of change management projects, precontract refurbishment projects and ICT project which is still at an early stage. There is a dedicated change management work stream led by an experienced change management expert with major experience of other PFI property related projects. A number of departmental work streams have been established to ensure that departments are engaged in the change management process. An Interdepartmental Working Group on benefits realisation has also been put in place.
		03. GCHQ experts failed to spot that development of IT networking during the 1990s would hugely complicate technical transition which effectively evolved into a major systems upgrade. The GCHQ Board was principally concerned with the feasibility of testing the PFI market for a new building and lost track of the scope and cost of the technical transition.	ICT is a key element and needs to be recognised as such.	ICT is recognised as a major project dependency and is currently recorded on the Programme Risk Register as a major potential barrier to getting WP2010 delivered in accordance with the current programme timetable. To counter this a resource from Delivery and Innovation Division has been appointed to lead on this work along with dedicated support from the SIB.
		04. A further consequence of GCHQ's failure to see the programme as a whole is the staging of the technical transition for budgetary reasons. GCHQ will be keeping one of its existing sites open for 7 years longer than planned and incurring extra costs of £43 million.	As for 03.	At this point budgetary restrictions have not had any bearing on the commercial structure of the deal as our current view is that the WP2010 contract will be within DFP's affordability tolerance limits. Treasury and Partnerships UK advice has been taken on optimism bias in the business case
		05. GCHQ made a highly uncertain assumption that a conventionally procured building would have over-run its budget by 24%. That alone accounted for the comparative cost saving that GCHQ estimated the PFI deal would offer, but was simply an average over past projects and hides the wide range of outcomes.		

Year	PAC Report	PAC Recommendation	Key learning point/ recommendation	WP 2010 position
		06. Departments should not uncritically accept that PFI is the only way to improve on past construction performance. The Treasury and the Office of Government Commerce have told us that they are seeking to modernise construction and that there are non-PFI approaches to construction procurement that offer potential advantages. The public sector could learn from the experience of the private sector and reduce the risks in construction projects to provide a better measure of competition with PFI bids and be a spur to securing improved value for money.	Consider a range of procurement options to ensure best value for money.	The procurement strategy for WP2010 was considered in detail at the outset of the programme. It took account of Treasury and OGC guidance. The Outline Business Case which was approved by DFP Supply demonstrated very clearly that a PFI procurement could deliver best value for money. The business case is currently being updated to take account of bid information and appears to reaffirm that value for money can be achieved.
	Criminal Records Bureau: delivering safer recruitment?	01. Timetables for the development and implementation of new services should provide for sufficient in-depth consultation directly with potential users of the service, and for the outcome of consultation to be reflected in service design. The Agency's problems stemmed from an over ambitious timetable, with inadequate time dedicated to identifying and taking action on the preferences of potential users of the service at an early stage of the project causing significant changes to be made in planned business processes late in the development process.	Understand business requirements at an early stage.	In developing the building specification and service requirements WP2010 undertook extensive consultation with Properties Division and CPD (representing the technical experts) and the Departments as users of the accommodation. These groups were also involved in the evaluation of ITN bids and since then further consultations have been taking place to finalise requirements for BAFO.
		02. In developing services to promote electronic government departments should first establish that potential users will wish to use, or be equipped to use, the planned service in this way. Departments may need to consider incentives, such as a discounted price for the service, to encourage use of electronic methods if more efficient and effective. The Agency assumed a largely telephone based service with some online access. Users' preference, however, was for paper based applications, and for applications submitted in bulk by potential employers rather than by individuals.	As for 01.	WP2010 is not an egovernment solution as such. However the IT specification that will be implemented will cater for thin client technology and be cognisent of electronic government projects in the pipeline. The ICT procurement is being taken forward by Delivery and Innovation Division within DFP.The needs of the project are also being considered as part of the Network NI procurement.
		03. Adequate time for piloting new services is fundamental to successful introduction. In the Bureau's case only a limited pilot was planned initially, and that was squeezed as significant changes to planned business processes became necessary. Launching a service which does not work may be more inconvenient for users than delaying service introduction to get the system right.	Adequate time should be provided for pilots.	2 pathfinders for WP2010 have now gone live. A formal evaluation has been completed on the first pathfinder. A preliminary health check on the second one has been completed and a full evaluation is due within the coming months. The lessons learned have been identified both at pathfinder and programme level.
		04. Rejected bids should be scrutinised carefully for signs of possible weaknesses in the tender specification, and the successful contractor's bid. Other bidders for the Bureau's contract had questioned both the realism of the timetable, and the assumption that 85% of Disclosure applications would be made by phone. The Agency took action to obtain independent assurance on the successful candidate's bid, but did not adequately heed the warnings signs within other contractors' bids.	Bids including unsuccessful bids should be thoroughly assessed for signs of weakness in the tender specification and the successful contractor's bid.	The tender specification is being fully reviewed as a result of the ITN evaluation and learning points will be incorporated into the BAFO

Year	PAC Report	PAC Recommendation	Key learning point/ recommendation	WP 2010 position
	PFI: The New Headquarters for the Home Office	01. Under-forecasting of staff numbers leads to bad decisions on accommodation. There is evidence of optimism bias in PFI projects for departmental accommodation: departments have assumed much lower staff numbers than they have subsequently employed. The buildings have then not been large enough to hold everyone. Yet such projects are often justified in part, as in this case, by the advantages of bringing everyone under one roof. The Home Office assumed that staff numbers would reduce due to outsourcing, efficiency gains and changes in working practices. Instead, numbers increased dramatically between 1998 and 2003 as the Home Office took on new responsibilities, although the total increase is not fully explained by these new functions. Similar stories arose at GCHQ, the Ministry of Defence, and the former Department of Social Security.	Under forecasting of staff numbers leads to bad decisions on accommodations - don't buy flexibility that isn't needed.	In the ITN competition NICS has not assumed any reduction in staff numbers and requested that bidders accommodate all staff numbers provided by Departmental accommodation within the scope of the contract. In doing so NICS has been working with projected headcount figures as identified by Fit for Purpose and more recently CSR projections. Contractual flexibility is, however, being considered to deal with the possibility of future decisions on dispersal which might see the movement of business from the Greater Belfast area. This will be negotiated with the bidders as they proceed to BAFO. Significant flexibility provisions are being constructed as part of the contract so that buildings can be vacated over time as business requirements change for a fixed vacation cost agreed in competition
		02. If, as is now possible, Home Office HQ numbers in London fall, the Home Office should identify other Government departments whose staff can fill up the new building. Departments' roles and responsibilities, and therefore staff levels, are inevitably subject to change, yet PFI accommodation deals tie departments into paying for servicing buildings however few staff are accommodated.	Ensure that the scope of the contract is sufficiently robust in terms of headcount and departmental needs over time.	Significant flexibility provisions are being constructed as part of the contract so that buildings can be vacated over time as business requirements change for a fixed vacation cost agreed in competition. Also the nature of the new style accommodation provides significantly more flexible buildings than was traditionally the case.
		03. The Home Office should revisit their implausibly high assumption that 1300 of their officials plus support staff need regular access to Ministers and Parliament. The greater part of their 3500 headquarters staff could probably be moved out of London, and the Home Office should take full advantage of the opportunity provided by Sir Michael Lyons' review of relocation.	As for 01 and 02.	Departmental locations have been challenged and agreed in the Strategic Development Plan. Headcount figures are also being revisited as BAFO requirements are being finalised. In Northern Ireland this is less of an issue as office rents are less variable than in GB
		05. To get the softer, but important, benefits that the move to the new building is intended to bring the Home Office will have to set up a systematic management framework. This is a deal that potentially offers real benefits to the Home Office and the taxpayer. Staff to be located in the Marsham Street building do not deliver services directly to the public as customers but by developing effective policies and programmes. This means that the intended benefits of the new accommodation which arise through better team working and flexibility may not be readily apparent and therefore difficult to quantify. Other departments that have faced similar challenges, such as the Treasury and GCHQ, may be able to advise.	Ensure a robust benefits realisation strategy to capture the benefits of new working practices provided through the accommodation project.	The benefits realisation strategy has been approved by the Project Board in advance of the ITN. It was also a key element of the pathfinder projects and the lessons learned from these are being considered for the wider programme. Benefits targets are currently being developed for early mover departments. An Interdepartmental Working Group on benefits realisation has also been established and the experience of other projects such as HMT and GCHQ is being brought to bear. The development and delivery of benefits realisation from WP2010 are being monitored through the NICS Oversight Board.

Year	PAC Report	PAC Recommendation	Key learning point/ recommendation	WP 2010 position
		06. We doubt whether the potential return from the Home Office's right to share refinancing gains is worth the £2.75 million price the Home Office paid for it. The analysis done by the Home Office does not appear to relate the extra £2.75 million demanded by AGP for the concession to the probability that re-financing might take place. Given that subsequently the Treasury was able to negotiate far wider-reaching concessions on sharing re-financing gains without making any payment for them, it seems questionable that the Home Office should have agreed to any payment in this case.	The share of refinancing gains should be commensurate with the price negotiated in the contract.	WP2010 has adopted the refinancing gains drafting within the Treasury approved SoPCNI draft legal contract. It is also cognisant of the lessons from earlier PFI projects and has given assurances to Ministers that issues such as refinancing will be carefully negotiated.
		07. The Home Office should decide quickly on the future of Horseferry House, a building incapable of future economic occupation. Since 2002 there has been a decline in the commercial property market and it is surprising that the Home Office does not know how much its freeholds are currently worth, particularly as it expects to sell them.	N/A	N/A
	London Underground Public Private Partnerships	01. An alternative solution might have been to restrict the PPP approach solely to major upgrade work. A major part of the justification for the PPPs was London Underground's inability to carry out major upgrades effectively. Yet much of the infrastructure work covered by the PPP is just ongoing maintenance and renewal work.	The PPP contract should reflect the scope and business requirements where VFM can be achieved.	The procurement route for WP2010 was considered in detail at the OBC stage. The scope of the contract has not changed materially since that time
2004/2005		02. Departments should not use the Public Sector Comparator (PSC) as conclusive evidence of the value for money of the PPPs. Recent Treasury guidance, following representations from this Committee and the National Audit Office, downplays the role of the PSC in favour of a broader more meaningful analysis. The Department and London Transport did consider wider, non-quantitative factors alongside the PSC in this case and assessed value for money based on a broader, more judgemental basis.	Departments should not use the PSC as conclusive evidence of the value for money of the PPP.	This point will be addressed in the Final Business Case. Work on this area is in its early stages
		03. Issuance of a public sector bond should be considered for financing future infrastructure projects in which significant risk transfer to the private sector may not be achievable. Bond financing would have been cheaper than the PPP financing costs though the risk of non-performance would then have fallen directly on the public sector. TfL is now planning to use bonds for investment under new rules introduced in April 2004.	A public sector bond should be considered for financing future infrastructure projects in which significant risk transfer to the private sector may not be achievable.	In the early stages of the procurement the programme did not pursue bond financing as it was deemed to be too risky during the early refurbishment years. However further consideration is being given at BaFO to extending the contract terms thus derisking the financial aspects of the project. This will continue to be reviewed.

Year	PAC Report	PAC Recommendation	Key learning point/ recommendation	WP 2010 position
		04. Disagreement between the main parties responsible for procuring and managing a PPP ideally should be resolved beforehand and certainly before the terms of a PPP are agreed. The perception by financiers of political risk (such as the amount of central government support to local government), rather than project risk, appears to account for much of the £450 million extra cost of private finance.	Disagreement between the main parties responsible for procuring and managing a PPP should be resolved before the terms of a PPP are agreed.	The Director of Properties Division (which will manage the eventual contract) is a member of the Programme Board and involved in significant decisions to ensure the management of the contract is considered thoroughly in the development thereof.
		05. Public sector bodies should ensure that the contractor discloses the existence of any success fees in bid competitions and that there is satisfactory justification for such fees. It is common for the public sector to reimburse bid costs to winning bidders through the PPP service charge. Success fees of some £90 million, approximately 30% of total bidders' costs of £275 million, were paid to the winning bidders in this case.	Public sector bodies should ensure that the contractor discloses the existence of any success fees in bid competitions and that these can be justified.	There are no success fees in the WP2010 transaction at present and this will be addressed at BaFO.
	PFI: The STEPS deal	01. It was a very serious blow indeed for the Inland Revenue to have entered into a contract with tax avoiders. The Departments knew that Mapeley was owned by shareholders based outside the UK, but did not clarify the company's tax plans, or find out that it intended to hold the properties offshore until late in the procurement process. Departments should as far as possible discount gains from tax avoidance that may be factored into a PFI bid, since any price advantage to the Exchequer is likely to be offset by lower tax revenue.	Departments should as far as possible discount gains from tax avoidance that may be factored into a PFI bid.	At ITN bidders were specifically instructed that where they sought to use off shore vehicels to minimise corporation tax, any reduction in tax revenue to the public purse would be taken into account when assessing value for money. All the bidders confirmed that they intended to base their organisations within the UK tax regime and pay tax as appropriate.
		02. For its part, Mapeley had always intended to hold the properties offshore to avoid paying tax. Yet the company was less than open with the Departments, only making its intentions known to members of the Departments' project team very late in the procurement process.	Tax structures should be negotiated upfront and early in the procurement process.	At ITN bidders were specifically instructed that where they sought to use off shore vehicels to minimise corporation tax, any reduction in tax revenue to the public purse would be taken into account when assessing value for money. All the bidders confirmed that they intended to base their organisations within the UK tax regime and pay tax as appropriate.

Year	PAC Report	PAC Recommendation	Key learning point/ recommendation	WP 2010 position
		03. Faced with Mapeley's financial difficulties, the Departments' negotiating position was weak and led to the prolonged negotiations following deal signature. Ahead of signing the contract, the Departments had not given a high priority to analysing the possible termination scenarios or developing a fall-back position to ensure business continuity. Departments need to ensure that they retain a real option to terminate a deal in the event of contractor default.	Departments need to ensure that they retain a real option to terminate a deal in the event of contractor default.	Termination options have been addressed in the draft legal contract for WP2010
		04. Nearly four years into a 20-year deal, negotiations between the Departments and Mapeley have still to be concluded. It is important that they should now meet their objective of concluding the current negotiations by Spring 2005.	Negotiations should be concluded quickly.	It is our intention to conclude all negotiations at contract award
2005/2006		05. The current negotiations should aim to agree a performance measurement system that balances rewards and reductions in payments. Mapeley signed up to the performance measurement system suggested by the Departments even though it considered some aspects to be punitive. A performance measurement system can only function effectively when all parties are agreed on the criteria for, and the value of, deductions for poor performance.	Performance management systems should balance rewards and reductions in payment.	The draft PMS for workplace 2010 has been carefully constructed and discussed with bidders. At this point the PMS does not provide for 'bonus' payments where performance exceeds targets but does deduct abatements where performance falls below target.
		06. After the STEPS deal was signed, a number of key staff in the Departments moved on and there were management changes at Mapeley. Departments should avoid moving contract management staff unnecessarily, and contractors should commit to an appropriate degree of staff continuity between the procurement process and the operational phase of a PFI project.	Departments should avoid moving contract management staff unnecessarily, and contractors should commit to an appropriate degree of staff continuity between the procurement process and the operational phase of a PFI project.	Workplace 2010 is committed to these principles and is recruiting for contract management positions at this time. The Head of the Contract Management Unit has been in post for some time and he, along with other key personnel, have been involved in the ITN evaluation and bidders meetings moving forward towards BAFO.

Year	PAC Report	PAC Recommendation	Key learning point/ recommendation	WP 2010 position
	The regeneration of the Millennium Dome and associated land	01. There was confusion among potential bidders about how much land was on offer in the second competition for the sale of the Dome. English Partnerships, the Department and their advisers believed that to have made a clear, open offer of all the land that was available at the outset of the second competition would have diminished interest in the Dome itself. Instead they let information emerge to each consortium in a piecemeal and unstructured manner which did little to further the sale objectives. In running competitions Departments should maintain openness and equality of information, which will avoid unnecessary risks to the bidders, maximise competitive tension, and optimise the likely outcome for the Exchequer.	Departments should maintain openness and equality of information, which will avoid unnecessary risks to the bidders, maximise competitive tension, and optimise the likely outcome for the Exchequer.	Workplace 2010 has been very open with the bidders in terms of the scope of this transaction. NICS has not taken any decisions on any secondary competitions.
		02. This Committee and its predecessors have consistently stressed the benefits of competitive tension when negotiating commercial deals with the private sector. The failed first sale competition meant that there was reduced market interest in the second sale process, leading to weak competition with few participants and only one viable bid. In these circumstances it is difficult to be confident that the deal which was finally secured offered the best value for money that could have been achieved.	Competitive tension should be encouraged when negotiating commercial deals with the private sector..	Workplace 2010 is the largest PFI of its type in the UK at this time. It has developed a very competitive procurement process with 4 large UK consortia submitting ITN bids two of which have been short listed to go forward to BAFO as and when final decisions on the scope and content of the contract have been taken.
		05. In deals as complex as that agreed for the Dome, estimating possible future profits will never be an exact science. So profit sharing mechanisms, with their inherent scope for returns to be undervalued, are not the best way of achieving a fair return for the taxpayer. Especially where public bodies are not as expert as their counterparties in specialist businesses, they should think in terms of taking a royalty, or a percentage of gross takings, instead of a profit figure. This approach would also be consistent with the principle of allocating business risks to the party best able to manage them.	In the event of profit sharing bodies should consider their counterparties taking a royalty, or a percentage of gross takings, instead of a profit figure.	Workplace 2010 are very mindful of excess profits, development gain profits, refinancing and windfall gains and have invested considerable time in developing the contractual position to sharing gains. Our approach to excess profits is based on cash flow because of the nature of the contract i.e. profits on residual value of property. Assurances have also been given to Ministers that these commercial issues will be carefully negotiated to ensure best value for money

Year	PAC Report	PAC Recommendation	Key learning point/ recommendation	WP 2010 position
		06. Monitoring the successful delivery of this regeneration programme will require a long term commitment from English Partnerships to ensure it has a sufficiently detailed understanding of the various constituent businesses. For example, it will need to exercise its rights of access to inspect and review the financial records of the joint venture and be as fully engaged as its private sector partners in decision-making over the speed and nature of development of the Peninsula. English Partnerships should benchmark the various business activities being undertaken by its profit share partners and watch that value does not leak away from the taxpayer. English Partnerships will need relevant specialist expertise in monitoring and managing its continuing stake in this deal in the public interest.		The monitoring of WP2010 will be completed mainly through the Contract Management Unit. The Authority has taken expert advice in devising the CMU structure. The recruitment of key posts is ongoing
	The BBC's White City 2 development	01. During the course of the White City 2 project additional costs were identified which added over £60 million to the total cost, an increase of 29%. The whole life costs of projects should be assessed, and made available to BBC Governors, before projects proceed.	The whole life costs of projects should be assessed before projects proceed.	Whole life costs were estimated at OBC and considered at ITN. The full business case will also address whole life project costs
		02. Even after signing the contract with Land Securities Trillium, the BBC made 300 variations to the White City 2 scheme. The BBC should better integrate design and construction, as recommended by the Office of Government Commerce, to reduce the risk of design changes after contracts have been let. Introducing variations after deals have been signed inevitably heightens the risk of cost increases.	Design and construction should be integrated to reduce the risk of design changes after contracts have been let.	Design and construction are fully integrated in the WP2010 contract.
		06. More than two years after the Energy Centre was completed, the space for a combined heat and power installation is not being used, and the BBC is paying for the empty space. This space, together with vacant office space in the Energy Centre, has cost around £1 million a year, and the BBC should put the unused space to productive use as soon as possible.	As for 05.	As for 05 above
		07. The BBC did not follow public sector good practice in several important respects on this project. There is guidance from the Treasury and the Office of Government Commerce on estimating whole life costs, monitoring returns to the private sector, obtaining refinancing benefits, and integrating design and construction. The BBC would benefit from drawing on this guidance.	Draw on all available guidance from Treasury and OGC.	Workplace 2010 has drawn on, and continues to draw on, all current guidance

Year	PAC Report	PAC Recommendation	Key learning point/ recommendation	WP 2010 position
		08. The Comptroller and Auditor General's work is providing fresh insights about the BBC's use of public money, but is being done under arrangements which end in 2006. The Comptroller and Auditor General should have a continuing role beyond 2006, which should include full access rights enabling him to identify and select subjects for examination.	N/A	NA
	The refinancing of the Norfolk and Norwich PFI Hospital	01. Octagon's investors' internal rate of return more than trebled following the refinancing. The total cash which investors expect to receive from the project reduced from £464 million to £335 million following the refinancing, but they have now got a large part of it much earlier. As a result, their internal rate of return, reflecting the value of getting benefits sooner rather than later, soared from 19% when the contract was let to 60%.	Internal rates of return and refinancing gains should be carefully negotiated.	WP2010 recognises the complexity and sensitivity in getting workable contractual provisions to protect the public purse in this regard. Workplace 2010 and its financial and legal advisors have spent significant time on crafting this part of the draft contract
		05. Following the refinancing, the Trust could have to pay up to £257 million more if it needs to end this PFI contract early. It is wholly inappropriate that, in the event of termination, the Trust's liabilities could now include not just the cost of the hospital, but all the additional borrowings Octagon took on to boost its investors' returns. It is unacceptable that, in the event of termination, the Trust could be left with liabilities incurred simply to make it easier for the investors to achieve high returns.	In the event of termination departments should not be left with liabilities resulting from refinancing.	The Authority has absolute discretion as to whether or not to agree to a Qualifying Refinancing under standard SoPCNI drafting, which has been incorporated into the Workplace 2010 contract. The PAC recommendation is, therefore accepted on the basis that for different contracts proposals from the private sector partner have to be considered individually to ensure that they demonstrate clear value for money. The proposals would have to be reviewed and endorsed by the appropriate financial and legal advice so that the proposition being made is fully understood.
		06. To maximise the refinancing gains, the Trust agreed to extend the minimum period of its PFI contract by five years to 2037. There can be no certainty that a hospital will be needed in its current form in over thirty years time, and the Trust need not have incurred the risks of extending the contract.	Given the uncertainty about long term need departments could incur unnecessary risk if extending the period of a contract.	The contract term was considered at ITN stage with Bidders being required to price based on both a 20 year and 30 year term. The Programme is currently giving further active consideration to the term of the contract in advance of the final term decisions being made for BAFO.
		07. The investors took their benefits from the refinancing immediately whereas the Trust is receiving its share over 35 years. On advice from the Department, the Trust is receiving its share of the refinancing gains as a reduction to the annual PFI contract charge it pays to Octagon. If the contract is terminated early, the Trust may find it difficult to recover the outstanding balance of its share of the refinancing gain.	In the event of termination it can be difficult to recover the outstanding balance of refinancing gains.	The Authority has absolute discretion as to whether or not to a agree to a Qualifying Refinancing under standard SoPCNI drafting, which has been incorporated into the Workplace 2010 contract. The PAC recommendation is therefore accepted on the basis that for different contracts proposals from the private sector partner have to be considered individually to ensure that it demonstrates clear value for money. This would then have to be endorsed by the appropriate financial and legal advice to fully understand the proposition being put to it.

Year	PAC Report	PAC Recommendation	Key learning point/ recommendation	WP 2010 position
		08. This project again shows an authority too readily agreeing with refinancing proposals when more robust negotiations could have produced a better outcome. Staff managing PFI projects should be trained to understand refinancing issues and should appoint experienced advisers to assist in robustly negotiating refinancing.	Projects should appoint experienced advisers to assist in robustly negotiating refinancing.	WP2010 is not yet at this stage but recognise the importance of expert assistance in determining refinancing gains
		09. The Trust incurred additional financing costs by entering into an early contract in the emerging PFI hospital market. Financing costs were higher on early PFI hospital deals than current deals reflecting the risks of a new market, and the Trust should not be expected to bear the additional cost unaided. The Department argues that the Trust avoided subsequent construction cost inflation, but this is a different issue which does not relieve the Trust of the higher financial costs.	N/A	NA
		10. There is no central data on PFI construction cost inflation or the impact of government building programmes on public sector building costs. In order to manage better the future PFI programme, the Treasury should provide an annual assessment of the effect of construction cost inflation on public building projects, including the effect on PFI projects and a comparison with private sector experience.	Departments should utilise all Treasury guidance on the effect of construction cost inflation on public building projects, including the effect on PFI projects and a comparison with private sector experience.	WP2010 has used all documentation available in this matter. To protect itself from these types of inflationary gains in the operational phase of the contract, the ITN required bidders to use RPI x as their annual inflationary escalator but subject to an overall cap of 5%.
	Channel Tunnel Rail Link	01. In bidding for the project in 1996, LCR forecast that passenger numbers using Eurostar would reach 21.4 million in 2004 but actual passenger numbers for 2004 were only 7.3 million. Where future income from passengers is expected to provide a major element of the revenue needed to repay the cost of constructing transport infrastructure, it is crucial that realistic forecasts are prepared from the start. Downside risks need to be given due weight, drawing on both UK and international experience, in considering future projects.	Ensure that realistic forecasts are prepared at the outset of the contract process.	In establishing the basis on which the Bidders should submit their proposals the Authority drew on a wide range of data and experience from both internal sources and relevant industry experts.

Year	PAC Report	PAC Recommendation	Key learning point/ recommendation	WP 2010 position
		02. The economic case for the Link remains marginal. On passenger traffic alone the Link is not justified, so regeneration benefits are required to make the project value for money. The Department's assessment of regeneration benefits of the Link should be rigorous, and should separate out clearly those attributable to other major infrastructure projects close to the Link, including in due course the impact of the 2012 Olympics.	N/A	NA
		03. The initial aim was to transfer a high level of commercial risk to a private sector consortium, which did not however have the financial strength or equity capital to sustain that risk if things went wrong. As risks materialised, the Department had to provide more and more support, while trying to ensure that private sector disciplines were maintained. In considering such major projects in future, Departments need to satisfy themselves that there is reasonable consistency between the degree of risk transfer and the extent of investors' equity stake in the project.	Departments need to satisfy themselves that there is reasonable consistency between the degree of risk transfer and the extent of investors' equity stake in the project.	Noted. This aspect has been considered explicitly at the ITN stage of the evaluation in evaluating the deliverability and robustness of the bidders project vehicles and financing package
		04. The Department thought the Cost Overrun Protection Programme, though expensive, was a way of maintaining private sector disciplines without extra direct support from the taxpayer. After Rail track Group withdrew from the project in 2001, the arrangements made by the Department and LCR included placing layers of cost overrun risk with commercial insurers, as well as the project managers. The value for money of such complex arrangements is difficult to judge, and there would have been less need for them if the private sector had, from the outset, the necessary financial strength to carry the risk allocated to it.	As for 03.	As for previous answer
		05. There remains uncertainty over the future call on the taxpayer. Even though the major construction risks have passed, under the terms of the restructured deal the taxpayer remains exposed to the financial consequences of Eurostar underperforming against forecast passenger volumes. The Department should actively manage the size and timing of LCR's call on the Access Charge Loan facility, so as not to weaken the incentive for LCR and Eurostar to maximise passenger revenues. Any future changes to the structure or ownership of LCR will need to protect the interests of the taxpayer.	Any future changes to the structure or ownership of the PSP should protect the interests of the taxpayer.	The only additional expenses that we foresee at this point are variation orders that do not form part of the original contract. WP2010 has been thorough in ensuring that all foreseeable business needs have been incorporated into the contract to minimise variations.

Year	PAC Report	PAC Recommendation	Key learning point/ recommendation	WP 2010 position
		06. High levels of inflation on construction projects which drove up the costs of Section 2 of the Link will continue to be a problem for the South East. There are a number of further major infrastructure projects planned, for example, the Olympics, widening of the M25, Thameslink 2000 and the Thames Gateway, creating substantial additional demand for limited resources. The Treasury and Office of Government Commerce, together with public bodies planning major projects, should aim to schedule the construction phases of such projects so as to manage the risks to cost, time and quality from any unplanned surge in demand.	N/A	WP2010 is protected against the additional cost burden of inflation risk by asking the bidders to bid against RPIx and restricting the level to which inflation can rise to 5%. This way the annual USC will only move in accordance with RPIx over the term of the contract.

Department of Finance and Personnel
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Guiding Principles for the Location of Public Sector Jobs in Northern Ireland

Summary of responses to the DFP consultation paper

Contents

Introduction

On 26 January 2007 the Department of Finance and Personnel (DFP) published a consultation paper seeking views on draft guiding principles to underpin the location of public sector jobs in Northern Ireland. The proposals on which we consulted were aimed at providing a framework to underpin decisions on the location of public sector jobs resulting from the Review of Public Administration (RPA).

The consultation document was sent to over 350 interested organisations, stakeholders and individuals. These included representatives from local authorities, voluntary and community sector organisations, trade unions, political parties, representative bodies, local strategic and district partnerships, Westminster spokespersons on Northern Ireland and others. The consultation was also made available on the RPA website and publicised through a DFP press release and press notices in the main newspapers.

During the consultation period we held two workshops for interested stakeholders. A summary of the points raised at the workshops and a list of workshop attendees are set out at Annexes A and B.

A total of 39 written replies were received during the 12 week period of consultation and 2011 users opened the consultation paper from the RPA website during the same period. The full list of respondents is set out at Annex C.

We are grateful for all the responses received. This paper seeks to reflect the views offered but, inevitably, it is not possible to describe all the responses in detail.

In undertaking this consultation exercise and drawing up this summary, we do not consider that the issues raised, and responses received, lend themselves to simple statistical analysis. Many of the respondents did not specify which questions they were replying to, and many of the questions were seeking general views and/or wide ranging and general in nature. We have sought to breakdown responses for each section of the consultation document, and indicate the overall level of support.

You can obtain copies from [insert contact details]

Views Expressed on Specific Questions and Related Issues

Current requirements, policy and guidance in Northern Ireland

Consultation question:

Your comments on the existing policy framework and how that might be positively be developed would be welcomed (paragraphs 15-24)

There was clear support in principle for the intention to create a coherent and integrated framework to underpin future decisions on the location of public sector jobs in Northern Ireland, particularly at this time of reorganisation of public services.

A significant number of respondents argued that a pro-active policy of dispersing public sector and civil service jobs or functions from the Greater Belfast area should be adopted by the new Northern Ireland Executive. The jobs to be dispersed should be of good quality and a permanent nature. Other respondents recognised that a well managed relocation policy could bring a more even spread of benefits of public sector employment opportunities across Northern Ireland but also emphasised the critical relationship between the long-term success of Belfast and the success of Northern Ireland Plc and pointed to continued areas of deprivation within the Belfast area.

A number of respondents argued that a robust relocation policy should be developed based on extensive preparatory work so that the Executive can come to an agreed approach on the scale and degree to which relocation policy should be applied in Northern Ireland.

There was widespread support for the Regional Development Strategy forming an important element of the framework. Several respondents noted that alongside the RDS, regard should be had to local area plans.

There was concern that decisions being taken as part of the Workplace 2010 programme will have a bearing upon decisions taken on the location of public sector employment. Respondents sought clarification on Workplace 2010 intentions and its potential linkage and impact upon future civil service employment location decisions. One respondent requested that the programme should be suspended to allow for a review of the programme by a new administration.

Several respondents noted that the consultation document was primarily focused on the Civil Service and there was a lack of consideration of the existing framework across other sectors. Many respondents argued that there should be local government representation on the Estates Working Group while others thought that public service providers should also be represented.

The following comments were made by a small number of respondents on the existing policy framework:

- It does not include a policy to promote flexible working from home.
- It takes no account of the Work and Families 2006 NI Order and the increasing significance Government places on meeting the needs of working parents and, in particular, working mothers.
- It should reflect the wider UK ‘Core Cities’ agenda which highlights the important role of core cities in driving regional competitiveness and growth.
- The Government’s anti-poverty strategy ‘Lifetime Opportunities’ should be of central importance within the existing framework.
- Requirements under Section 75 of the Northern Ireland Act 1998 should be of central importance within the existing framework.
- It does not take sufficient account of the primacy of uninterrupted service delivery to customers when considering the location of public sector jobs.
- It places undue emphasis on the costs of dispersal and the benefits in rationalising and maximising the use of existing public assets as this will perpetuate the existing ‘inequitable spread’ of public sector employment.
- The existing framework does not recognise the advances in ICT and the shared services agenda which mean that it is no longer necessary to have services in close geographical proximity to Belfast.
- It should include a reference to the Investment Strategy for Northern Ireland.

Draft guiding principles

Consultation questions:
We would welcome views on the principles outlined in paragraph 28 [of the consultation document].

We would welcome views on how these and/or other principles might be developed into a practical framework.

We would welcome views on the relative importance of the principles.

General comments on the principles

There was general support for the proposed principles, subject to more detailed comments. Several respondents noted that it would be helpful to see a clear set of objectives or policy intentions linked to the principles while recognising the need for decisions to be made according to specific circumstances. It was argued that there was need for clarity on the status of the principles, i.e. are they to be advisory or prescriptive.

Comments on each of the proposed principles:

Improving service delivery

While the provision of modern workspaces was welcomed, several respondents noted that many public bodies are custodians of historical public buildings which must be preserved and, if appropriate, sympathetically converted to modern office accommodation.

It was argued that the sub-principle, ‘providing local public services where demand exists’ should be treated with caution as high deprivation often goes with low expectations of support from public services and sometimes it is important to create demand.

There was strong support for exploiting opportunities for co-location, integration and co-operation in public services, including, where appropriate, ‘one-stop shops’ or ‘public service centres’, cross-border services, joint planning mechanisms and shared services.

Taking account of staff interests

There was strong support for the sub-principle that staff must be fully engaged in any decision-making process regarding their future place of work.

It was argued that principles should place more emphasis on issues of work-life balance, family friendly policy and practice, and childcare and carer support.

One respondent argued that failure to take account of staff interests would have impacts on other principles, particularly service delivery, effective working and equality and good relations.

Several respondents called for a clear and pro-active decentralisation policy to provide sustainable career development opportunities for staff. However, it was also recognised that there can be conflict between dispersal policies and securing fair and proper protection of the interests of existing staff. It is therefore important that trade unions are involved in policy formulation.

One respondent noted the need for sustainable environmental proofing on the mobility and travel to work needs of staff.

Achieving value for money

It was recognised that achieving value for money was a key principle. However, a number of respondents expressed concerns that value for money considerations will override other policy objectives; it was important to recognise that value for money is not a simple financial calculation and issues of equality of opportunity and outcome must also be built into the framework.

Effective working

There was strong support for the sub-principle ‘maintaining and enhancing services and ensuring skills retention’.

Several respondents highlighted the importance of the hub centres identified in the Regional Development Strategy to support the provision of accessible, convenient public services.

There was a view that the principles should place more emphasis on the innovative use of ICT to support effective working, including mobile and home working.

Effective asset management

Several respondents reiterated their concern about Workplace 2010, arguing that the programme does not enhance a co-ordinated approach to asset management of the public sector estate.

The need to balance the logic of few larger properties with the needs of customers and the other guiding principles was raised. Several respondents warned against short term thinking in the disposal of assets.

A few respondents expressed concern that overly rigid controls would be placed on the management of local government estates and assets restricting local authorities' autonomy in managing their estate/assets.

Maximising social and economic benefits

There was strong support for this proposed principle. Again, many respondents highlighted the importance of the hubs identified in the Regional Development Strategy as gateways into the regeneration and economic development of deprived and rural communities. It was noted that deprivation must be assessed in a way that takes account of rural as well as urban deprivation.

Promoting equality and good relations

There was general support for this principle. The importance of open consultation with the public and their representatives on location decisions was noted.

Sustainable Development

Respondents welcomed the inclusion of this principle.

Proposed additional principles:

A small number of respondents suggested that the following additional principles should be included in the framework:

a. A principle around reflecting a 'sense of place' and local identity.

b. A principle that would place a duty on all public bodies within a regional Northern Ireland framework to collaborate together to:

    - Enhance service delivery;
    - Maximise the use of current public offices within a framework of sustainability, environmental protection and enhancement of the built environment; and
    - Provide an impetus to economic growth.

c. A principle around providing facilities within those rural towns in which public services are already provided.

d. A principle around 'creating new organisational cultures' to take into account the fact that the RPA will result in a number of different corporate entities with their own cultures and skill sets being brought together.

We would welcome views on how these and/or other principles might be developed into a practical framework.

There was a recognition that there is no perfect relocation model which could be applied to Northern Ireland. However, it was argued by many respondents that there is a need for a detailed methodology as to how the principles will be applied and implemented. Some respondents argued that the methodology should include weightings to provide a clear template for decision makers. Others suggested that there should be a full economic appraisal of all (re)location proposals of public sector employment, taking account of all associated economic, environmental and social impacts.

The need for openness and transparency at all stages of the process was noted by almost all respondents.

It was argued by a significant number of respondents that the principles should be refined to a lower number and prioritised. (This is discussed further in the next section).

It was argued that a baseline should be published to inform the decision-making process. This baseline could helpfully include

- the location and nature of all public sector jobs;
- information on travel to work patterns;
- information across the Section 75 categories; and
- levels of deprivation and other demographic and socio-economic variables.

Many respondents supported the proposal to ensure that decisions across sectors are 'joined up' to ensure that the overall impact of the decisions are effectively managed and assessed. It was suggested that similar to the approach implemented in Scotland, there should be a central resource to provide general guidance and advice on the future (re)location decisions for public sector jobs. However, one respondent argued that the drawing up of separate estates policies should be delegated to the respective Central Government, Local Government, health and education authorities themselves and the role of Central Government should be to issue an overarching framework.

One respondent argued that it would be beneficial if the anticipated scale of change resulting from current plans in the medium and longer term could be outlined as a means of more specifically setting the context as well as a means of addressing expectations of staff and the public more generally.

We would welcome views on the relative importance of the principles

There was a general consensus that the principles should be refined to a lower number and prioritised. There were varying views on the relative importance of the principles.

On the one hand it was argued that the principles of equality, rural proofing and sustainable development must be key factors in the location of public sector jobs and appropriate robust assessments and proofing carried out as part of the process.

On the other hand, some argued that the major emphasis should be on maximising social and economic benefits and ensuring public funds address social need to ensure longer term benefits. Building on the regional hubs as identified in the Regional Development Strategy' was regarded as a key part of the framework.

There was also a view that Section 75, Targeting Social Need and *Shared Future* should be the core policy commitment within the framework.

Other respondents proposed that improving service delivery was the most important principle. While a small number emphasised the primary importance of taking account of staff interests.

Some also suggested that the principles need to be grouped as follows:

- Efficiency, effectiveness and sustainability; employee retention; socio-economic factors; equality and good relations
- Improving services while achieving value for money

- Improving service delivery, promoting equality and good relations; maximising socio-economic benefits;
- Improving public services; effective working; achieving value for money; equality and good relations; sustainable development
- Improving service delivery (including promoting equality and good relations, taking account of staff interests and sustainable development) and achieving value for money (including effective asset management, effective working and maximising social and economic benefits)

There was, however, a view from some respondents that the principles should not be prioritised.

'Bundling' decisions

As noted above, many respondents supported the proposal to ensure that decisions across sectors are 'joined up' to ensure that the overall impact of the decisions are effectively managed and assessed. It was argued that a collective approach should be made about the relocation of public sector jobs rather than individual Boards/Trusts etc. acting in isolation.

Interim decisions

It was argued that the interim decision-making process must also be transparent and that all interim decisions must involve meaningful consultation, adherence to equality screening, rural proofing and sustainable development assessments.

The need to ensure that temporary decisions do not become permanent was highlighted along with a view that early decisions should not prejudice future decisions on location.

One respondent argued that decisions on the permanent headquarters of the Education and Skills Authority and the Regional Library Authority should not be taken until all factors impacting on the location of these bodies can be taken into account, including the boundaries of the new councils.

Equality

It was recognised that equality proofing is essential at all stages of the decision-making process on location. A small number of respondents argued that a high-level and holistic EQIA should be undertaken of the policy framework and guidelines. Two respondents suggested that an over-arching equality assessment across the RPA was necessary. Other respondents noted that each individual decision regarding the location of jobs will generate impacts, however these are likely to be even more pronounced as multiple decisions are made and implemented. It is therefore critical that resources are attached to ongoing equality impact assessment of decisions on an aggregate basis, to determine the overall impact of all of the decisions on equality of opportunity and good relations.

Summary of Points on Which All or Virtually All Respondents Agreed:

There is a need for a coherent and integrated framework to underpin future decisions on the location of public sector jobs in Northern Ireland.

Dispersal is the key issue (but disagreement about whether there should be a pro-active policy to disperse jobs)

The Regional Development Strategy should form an important element of the framework.

There should be local government representation on the Estates Working Group.

General support for the principles and the need to refine them into a more manageable number (but no agreement on their relative importance)

There is a need for a detailed methodology as to how the principles will be applied and implemented (but no agreement on the approach to be adopted in the methodology).

Recognition of the need for equality proofing as part of the decision-making process

Annex A
Summary of workshop feedback

Points Raised at RPA Consultation Workshop Held in Armagh City Hotel on 4 april 2007

- Concern that RPA generally would result in more centralisation and that the requirement for efficiency and equality would conflict with each other;
- Keen to see decisions on location taken by politicians and that these should be supported by objective criteria;
- More work needed on environmental impacts;
- Would like to see more movement on the structural framework which could feed into a strategic mapping process;
- Assurances sought that interim decisions on health and education bodies (perceived to be Belfast based) would be subject to the new principles when final HQ decisions are made;
- Welcomed the concept of bundling and the overall principles – consensus that service delivery, staff interests, equality and economic and social benefits were of particular importance;
- Would like to see the application of the principles supported by existing methodology such as Best Value;
- Need for a vision as it is unclear what the principles are trying to achieve;
- A number of the principles could be grouped under the common thread of efficiency;
- Some degree of prioritisation required although generally agreed that service delivery paramount;
- Equitable distribution of jobs on a regional basis essential;
- Would like local government represented on the Estates Group so that principles and framework do not solely reflect civil service perspective;
- Concern that properties and buildings of use to the local community could be stripped and sold off;
- Support for view that any devolution of functions should include career progression;
- Important in any economic appraisal to look at other ways of delivering services and the associated costs and benefits;
- Would like to see more linkage to Fit for Purpose;
- Framework needs to be objective and fair and something which people understand.

Points Raised at RPA Consultation Workshop Held in Templeton Hotel, Templepatrick on 13 april 2007

- Noted that it was very difficult to disagree with any of the principles. Broad recognition that principles should be applied on a differential basis depending on the decision and the circumstances.

- Suggested an additional principle around facilitating the creation of functioning organisational cultures.
- Need for baseline information, including information on the condition of the estate.
- Belief that politics will override other considerations in the final decision-making.
- Interest in the implications of the shared services agenda be for the location policy.
- Feeling that the consultation document was too Civil Service focussed and there was a need for local government and wider public sector representation on the Estates Working Group
- Observation that varying timetables across the sectors complicates the decision making process.
- The number of principles should be reduced.
- The principles should place more emphasis on using technology, transport policy and the overall policy to reduce the size of the public sector.
- There was a need more clarity on the desired outcome being sought under each principle.
- Assurances sought on the continued involvement of stakeholders in the process.
- Assurances sought that interim decisions on location are indeed interim.
- Argued that there has been Belfast-centric approach over the last decade.
- Decisions on location should not be rushed.
- Suggested that we should consider enabling the movement of staff between sectors to aid dispersal and movement.

Annex B
List of workshop attendees

Location Workshop Armagh – 4 April 2007

Bethel	Claire	Lisburn City Council
Black	Margaret	Armagh City & District Council
Browne	Mark	Education & Skills Authority Implementation team
Bullock	Richard	SELB
Corvan	Carol	Armagh City & District Council
Donnelly	Freda	Armagh City & District Council
Donnelly	Mark	South Eastern Education Board
Donnelly	Noel	Armagh City & District Council
Dornan	Susan	Public Service Commission
Graham	Mark	NI Housing Executive
Heggarty	Brendan	Fermanagh District Council
Huggett	Steven	Fermanagh District Council
Linney	Claire	Dungannon & South Tyrone City Council
Lovell	Iris	Public Service Commission
Mackey	Paddy	
Mallon	Gerald	Armagh City & District Council
McAnulla	Sonya	Omagh District Council
McArdle	John	Newry and Mourne District council
McCallum	Catherine	Social Security agency
McCanny	Domonic	Armagh City & District Council
McClean	Seamus	DVA
McClenaghan	Helen	SELB
McCusker	Bernie	OFMDFM
McCusker	Jim	Public Service Commission
McGilly	Jonathan	Newry and Mourne District council
McGuckin	Michael	Cookstown District Council
McKenna	Liz	DSD SSA
McRoberts	Sylvia	Armagh City & District Council
O’Gorman	Sharon	Armagh City & District Council
O’Hanlon	Thomas	Armagh City & District Council
Paisley	Ivor	Cookstown District Council
Quinn	John	ARC 21
Speers	Jim	Armagh City & District Council

Stewart	Pat	Equality Commission
Vaugh	Deirdre	Staff Commission for Education & Library Board
Weir	Patricia	Staff Commission for Education & Library Board
Wilson	Roger	Armagh City & District Council
Winder	Nora	Armagh City & District Council

Location Workshop Templepatrick 13 April 2007

Agnew	Fraser	Newtownabbey Borough Council
Baird	Alec	Fermanagh District Council
Barker	Iris	Western Education and Library Board
Brereton	Geraldine	DSD SSA
Clements	Alan	Newtownabbey Borough Council
Connolly	Carmel	Lisburn City Council
Cummings	Paul	South Eastern Trust
Fitzpatrick	Aidan	Equality Commission for NI
Fulton	Winston	Larne Borough Council
Gibson	George	
Gillespie	David	Larne Borough Council
Girvan	Paul	Newtownabbey Borough Council
Goddard	Alison	Lisburn City Council
Gormley	Michael	WHSSB
Graham	Bumper	NIPSA
Hanna	Brian	Public Service Commission
Heaney	Kevin	Belfast City Council
Hill	Robert	Newtownabbey Borough Council
Irvine	Robert	Fermanagh District Council
Kennedy	John	North Down Borough Council
Magee	Brendan	DVA
Martin	Brian	Public Service Commission
McCann	Nuala	NI Local Government Association
McClean	Edmond	HSSA
McGrillen	John	Down District Council
McKnight	Rodger	Ballymena Borough Council
Metcalfe	Alan	Southern Health Care Trust
Mitchell	Dessie	
Mulholland	Esther	Moyle Council
Mulholland	Michael	GMB Trade Union - North West & Irish Region
Murray	Norman	Ballymena Borough Council
Patton	Collim	Public Service Commission

Scott	Maureen	RCN
Sheppard	Alan	Northern Health & Social Services Board
Smyth	Niall	Altnagelvin Area Hospital
Stewart	Norman	Down District Council
Templeton	Brian	DHSSPS
Webb	Ken	North Down Borough Council
Willis	Neal	Newtownabbey Borough Council
Wylie	George	North Eastern Education & Library Board

Annex C
List of Respondents

1. Ards Borough Council
2. Armagh District Council
3. Ballymena Borough Council
4. Ballymoney Borough Council
5. Banbridge District Council
6. Barry McElduff MLA
7. Belfast City Council
8. Coleraine Borough Council
9. Cookstown District Council
10. Craigavon Borough Council
11. Derry City Council
12. Down District Council
13. Dungannon and South Tyrone Borough Council
14. Equality Commission for Northern Ireland
15. Fermanagh District Council
16. Housing Executive
17. Ilex
18. Irish Congress of Trade Unions
19. James H Allister QC MEP
20. Larne Borough Council
21. Londonderry Chamber of Commerce
22. Moyle District Council
23. Newry and Mourne District Council
24. Newtownabbey Borough Council
25. NIPSA
26. North Down Borough Council
27. North Eastern Education and Library Board

28. North West Public Sector Review Group
29. Northern Health and Social Services Board
30. Northern Ireland Rural Development Council
31. Omagh District Council
32. P J McGuigan
33. Southern Education and Library Board
34. Strabane District Council
35. The Northern Ireland Confederation for Health and Social Services
36. UNISON
37. Western Economic Strategy Team (WEST)
38. Western Education and Library Board
39. Women's Forum Northern Ireland

Assembly Section

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Shane McAteer
Clerk
Committee for Finance and Personnel
Room 428
Parliament Buildings
Stormont
BELFAST
BT4 3XX

18 June 2007

Dear Shane,

FURTHER ISSUES RELATING TO WORKPLACE 2010 AND PUBLIC SECTOR JOBS LOCATION

Further to your letter of 14 June please find attached a paper addressing the questions on the above issue that Members raised at the Committee meeting on 13 June.

I hope this is helpful.

Yours sincerely,

Norm.

NORMAN IRWIN

Workplace 2010 and Public Sector Jobs Location

At the Committee for Finance and Personnel meeting held on 13 June 2007, members discussed a number of issues in relation to Workplace 2010 and wish to raise further questions in addition to those requested on 6 June 2007. The Committee has requested that the Department provides responses to the following questions:

Q: **What are the comparative full costs of all the procurement options considered to achieve the objectives of Workplace 2010? Was a mix of procurement approaches considered?**

The range of procurement options, including mixed procurement, was considered at the Outline Business Case stage in 2005. The associated full costings are detailed in Table A.

Q: **What is the methodology for the selection of buildings to be included in the contract? Which buildings were not selected and why?**

Greater Belfast Estate

The initial methodology established a level of long-term demand for office accommodation for the Northern Ireland Civil Service (NICS). This demand was based on departmental headcounts which were adjusted to take account of, for example, Fit for Purpose efficiency targets and the impact of shared service initiatives such as HR Connect and Account NI.

A set of accommodation principles were then prepared which aimed to

- Introduce new accommodation standards for the civil service estate;
- Optimise the use of larger, better buildings;
- Vacate the poorest quality accommodation;
- Bring departmental headquarters together on a single site where possible.

The capacity of each building if refurbished was calculated to understand the numbers of staff who could be accommodated based on the new standards.

The buildings were then matched against the long-term demand starting with the larger core properties until the remaining buildings were no longer large enough or of sufficient quality to accommodate departments on a single site, or as part of a sensible multi-site solution. However, there was a shortfall which has prompted the need for a couple of additional buildings to be procured. This methodology created the first tranche of buildings to be included within the contract and represents the end-state portfolio for Workplace 2010.

Buildings which are to be vacated as a direct result of the additional capacity created in the refurbished end-state portfolio form the second tranche of buildings within the contract.

This analysis has continued to be updated during the procurement process to ensure it reflects changes in headcount. The buildings not included in the contract are those which do not meet the strategic criteria. These will however provide some flexibility on headcount numbers and policy implementation particularly in the early years of the contract.

Regional Estate

The same methodology was applied to the regional estate which clearly splits into a small number of large office buildings (2,500 sqm+) and a substantial tail of much smaller buildings. Seven large regional buildings account for over 60% of the non-Belfast office floor area and offer the most potential for significant increase in capacity and therefore justify refurbishment. The remaining smaller buildings across the regional estate are unable to offer the same potential increase in capacity (nor does their inclusion represent value for money) and so would not be included in the contract.

Jobs & Benefit Offices

The NICS is nearing completion of a major investment programme in its network of Jobs & Benefit Offices. In order to ensure this investment is preserved and not prejudiced by fluctuations in funding available for maintenance, these buildings would transfer to the Private Sector Partner (PSP) who would maintain the refurbished Jobs and Benefits Offices throughout the contract period.

The upgrading of the remaining SSOs would not be included in the contract at this point. The NICS plans to deliver these works as they are already budgeted for. Once this work is completed, the buildings would then be transferred to the PSP. In the interim the SSOs would only receive facilities management services from the PSP until they are disposed of.

Specialist Buildings

Workplace 2010 is essentially about the provision of administrative office space. All specialist buildings (e.g. labs, colleges) are therefore excluded as they are not suited to the application of WP2010.

Q: **What is the potential for those buildings that are excluded from the contract to be brought in at a later stage?**

The residual buildings within the estate could be transferred at a later date after the contract is awarded. DFP could choose to either allow the PSP to purchase the buildings at some date in the future or to run a new negotiated procurement process.

Q: **Will any new or recently refurbished buildings be included in the contract? If so, why?**

A number of leasehold buildings acquired in the last 3 – 4 years would be included in the contract. These include a number of properties in the Gasworks Business Park, Clare House, Goodwood House, Causeway Exchange and Lesley Exchange which would be transferred as strategic assets and the NICS would continue to occupy over the long-term. Their inclusion would allow the PSP to manage the relationship with the landlord on behalf of DFP and to make the necessary investment as required over the life of the contract. It also ensures consistency in the estate management arrangements for the core NICS estate.

Q: **What are the general areas being covered within the provisions of the contract?**

The principal provisions of the Workplace 2010 contract are:

- the transfer of 77 freehold and leasehold properties for an agreed financial value;
- the refurbishment of 15 of the largest buildings to standards established by the NICS;
- continuing investment in these buildings necessary to maintain them to agreed standards;
- provision of 24 different facilities management services for the lifetime of the contract;

- a performance management regime which ensures the NICS only pays for services delivered to the agreed contractual standard;
- a monthly Unitary Service Charge.

Q: **What provision will be made for the Northern Ireland Civil Service accommodation requirements post contract? What risks have been identified in this regard and how will these be addressed?**

As things currently stand, the NICS would commence a review of available options, four years before the end of the contract period, based on the assumption that it would have a continuing need to remain in a large number of the buildings. The options are:

- the ability to enter into a lease on commercially realistic terms, having regard to leases on similar buildings and the identity of the tenant, with five yearly break options for the NICS; and
- the ability to enter into a new PFI contract either with the incumbent PSP or through a new regulated procurement process.

These options provide the NICS with the flexibility to make unfettered decisions on how it meets its future accommodation needs following the end of the WP2010 contract period.

The contract will also provide for the NICS to inspect all buildings 2 to 3 years before the end of the contract and require the PSP to make good any failures to meet the Authority's requirements. This will ensure that property condition is not a significant factor in the decision-making process for future accommodation.

The contractual provisions and available options are currently being reviewed to ensure that the NICS's requirements are fully protected at the end of the contract period. The contract also allows the NICS to buy back the Stormont Estate properties for market value at the end of the contract.

Table A
This provides details of the net present costs of each option as assessed at the Outline Business Case stage.

Option	Procurement Method	Capital Receipt	Stormont included / excluded	NPC (£ thousands)
Option 1A – Traditional Procurement Route (Whole Estate) with Stormont included;	Traditional Procurement	n/a	Included	£1,123,955
Option 1B – Traditional Procurement Route (Whole Estate) with Stormont excluded;	Traditional Procurement	n/a	Excluded	£1,146,905
Option 2A – "Total Property PFI" Route (Whole Estate) with 100 per cent capital receipts and Stormont included;	PFI	100%	Included	£1,014,119
Option 2B – "Total Property PFI" Route (Whole Estate) with 100 per cent capital receipts and Stormont excluded;	PFI	100%	Excluded	£972,147
Option 2C – "Total Property PFI" Route (Whole Estate) with 0 per cent capital receipts and Stormont included;	PFI	0%	Included	£925,553
Option 2D – "Total Property PFI" Route (Whole Estate) with 0 per cent capital receipts and Stormont excluded;	PFI	0%	Excluded	£908,114

Option	**Procurement Method**	**Capital Receipt**	**Stormont included / excluded**	**NPC (£ thousands)**
Option 2E – "Total Property PFI" Route (Whole Estate) with 67 per cent capital receipts and Stormont included;	PFI	67%	Included	£739,050
Option 2F – "Total Property PFI" Route (Whole Estate) with 67 per cent capital receipts and Stormont excluded;	PFI	67%	Excluded	£759,144
Option 3A – Mixed Procurement- (PFI Arrangement for the Belfast Estate and Traditional Procurement for the Regional Estate) with 100 per cent capital receipts and Stormont included;	Mixed	100%	Included	£1,066,802
Option 3B – Mixed Procurement- (PFI Arrangement for the Belfast Estate and Traditional Procurement for the Regional Estate) with 100 per cent capital receipts and Stormont excluded;	Mixed	100%	Excluded	£1,024,509
Option 3C – Mixed Procurement- (PFI Arrangement for the Belfast Estate and Traditional Procurement for the Regional Estate) with 0 per cent capital receipts and Stormont included; and	Mixed	0%	Included	£865,045
Option 3D – Mixed Procurement- (PFI Arrangement for the Belfast Estate and Traditional Procurement for the Regional Estate) with 0 per cent capital receipts and Stormont excluded.	Mixed	0%	Excluded	£885,591

Extract from DFP's Project Initiation Document - Project Organisation Structure

3. Project organisation structure

3.1 As highlighted, Workplace 2010 is a key NICS enabling project that is fully supportive of the key infrastructural and service delivery objectives of SIB and DFP. As a result, the programme organizational structure reflects a number of different management levels that are reflective of the stakes that need to be informed and of the different roles that need to be performed. The programme management levels are as follows:

i. Programme Steering Committee;

ii. Programme Board;

iii. Programme Director;

iv. Programme Management Office;

v. Independent Compliance Committee

Programme Steering Committee (PSC)

3.2 As Workplace 2010 is a jointly sponsored project, the PSC is made up of senior officials from DFP and SIB along with advisory support from Partnerships UK. The PSC is the senior board in the organizational structure. It provides the strategic link between the programme and broader strategic developments in both the NICS and DFP. Specific functions include:

- From a strategic level, monitoring the progress of the programme;
- Providing the conduit and interface through which the Minister and the Permanent Secretaries Group (PSG) are kept up to date and briefed on progress and, where appropriate, are asked to agree or decide on the way to proceed on key strategic issues that have a major influence of the programme;
- Providing an executive decision making forum for resolving issues, or to provide the Programme Board with direction on matters which are outside of the Board's authority.

3.3 PSC will be chaired by the John Hunter, DFP's Permanent Secretary. Meetings will be held quarterly.

Programme Board (PB)

3.4 The PB provides direction and is ultimately accountable for the success of the programme. It is responsible for assuring that the programme remains on track to deliver products of the required quality to meet the business case. The board includes departmental representation and specific PB functions include:

- Approving all major plans, signing off programme deliverables and authorizing any major deviation from agreed plans and milestones;

- Ensuring that required resources are committed and arbitrating on any conflicts between the programme and other major stakeholders;
- Reviewing and signing off programme deliverables.

SRO Role

3.5 Chris Thomson (Corporate Services Director in DFP) is the SRO and chair of the PB and is ultimately accountable, supported by senior business colleagues, to the Minister for the delivery of the Programme. The PB will routinely meet monthly, or exceptionally as dictated by developments on the ground.

Programme Director

3.6 The Programme Director reports directly to the PB. Specific responsibilities include:

- Overall responsibility for ensuring that the required deliverables are produced, to the required standards of quality, and within the specified constraints of time and cost;
- Monitoring progress on the Pathfinder projects and progress reporting to the PB;
- Ensuring that programme risks are properly managed and, where required, alert the PB about issues or risks that could jeopardize the delivery of programme milestones;
- Ensuring that the programme and Pathfinder projects are adequately resourced and have access to specialist external expert advice and support, as required;
- Dealing with issues as they emerge, or escalating to the PB as necessary.

3.7 The Programme Director is Tommy O'Reilly, who is an SIB strategic adviser.

Programme Management Office

3.8 The Programme Management Office (PMO) exists to support the Programme and Programme Director. Specific duties include:

- Production and thereafter maintenance and monitoring of PRINCE 2 documentation and products, for example, Project Initiation Document, Risk Register, Resource/Project Plan, Programme Management filing;
- Secretariat for PSC and PB, to include arranging meetings, taking minutes, distribution of papers;
- Programme resource co-ordinator;
- Governance issues associated with the employment of Programme advisers;
- Monitoring the Pathfinder projects to ensure that they are both developing in line with expectation and supporting the achievement of Workplace 2010 objectives
- Providing a range of miscellaneous services on issues such as business case approval, Gateway Review co-ordination, reviewing progress against the Programme's aims and objectives and communication issues.

Independent Compliance Committee

3.9 The role of the Independent Compliance Committee is to provide assurance to the WP2010 Programme Steering Committee and the Department of Finance and Personnel Accounting Officer on the integrity of the procurement process, from the ITN to the BAFO stage, and in particular the fairness and equitable treatment of bidders by

- Reviewing the evaluation processes and practices in line with fairness and EU public procurement law;

- Examining the robustness of established governance and control arrangements with regard to compliance;
- Providing advice on potential conflicts of interest and confidentiality issues; and
- Seeking adequate assurances from relevant professional advisers on the conduct of the procurement process.

The Committee which will operate as an independent sub committee of the Programme Steering Committee will provide an independent view on all of the above and make recommendations to the Programme Director as necessary and report at key points to the Senior Responsible Owner and Accounting Officer until such times as the WP2010 contract is awarded. The Chair of the Committee will also have the authority to report directly to the Accounting Officer if necessary.

The Independent Compliance Committee comprises of 4 members all independent of the WP2010 programme. The members are:

- Angela Gillibrand, Non Executive Chair
- David Thomson, Treasury Officer of Accounts
- Bert Niven, OGC, Managing Consultant
- James Stewart, Classroom 2000 Director

Transferred Estate & Current Occupancy @ April 2007

Estate	Property	Current Occupancy
Belfast City Centre	Adelaide House	400
	Castle Court	1,100
	Causeway Exchange	Vacant
	Centre House	212
	Clare House	500 (plus 100 short stay spaces)
	Clarence Court	755
	Design Centre	300
	Goodwood House	530
	Hydebank	310
	Interpoint	180
	James House	650
	Klondyke	425
	Lesley Exchange	Vacant
	Lighthouse	360
	Lincoln Building	281
	Millenium House	221
	River House	263
	Royston House	111
	Waterfront Plaza	111
	Windsor House	167
Stormont Estate, adjacent area and Rathgael	Castle Buildings	1,000
	Castle Buildings Annexes	550
	Craigantlet Building	111
	Dundonald House	1,099
	Dundonald House Annexe A	39
	Dundonald House Annexe B	16
	Dundonald House Annexe C	54
	Dundonald House Annexe D	20
	Hillview Buildings	55
	Knockview Buildings	178
	Massey House	100
	Netherleigh	400
	Rosepark Site	58
Stormont Estate, adjacent area and Rathgael	Rathgael House (currently counted as 2 buildings – New Building and Tower Block)	817

Estate	Property	Current Occupancy
Regional Estate	Ballymena County Hall	660
	Carlisle House	290
	Coleraine County Hall	433
	Marlborough House	629
	Orchard House	330
	Rathkeltair House	254
	Waterside House	281
Greater Belfast Jobs & Benefits Offices	Andersonstown SSO	160
	Bangor SSO	88
	Corporation Street SSO	168
	Falls JBO	110
	Holywood Road JBO	150
	Knockbreda JBO	96
	Newtownabbey JBO	82
	Shaftesbury Square JBO	110
	Shankill JBO	88
Regional Jobs & Benefits Offices	Antrim JBO	150
	Armagh JBO	107
	Ballymena SSO	67
	Ballymoney JBO	77
	Ballynahinch SSO	30
	Banbridge JBO	65
	Carrickfergus JBO	55
	Coleraine JBO	212
	Cookstown SSO	30
	Downpatrick SSO	36
	Dungannon JBO	143
	Enniskillen JBO	126
	Foyle JBO	277
	Kilkjeel JBO	33
	Larne JBO	85
	Limavady JBO	70
	Lisburn JBO	92
	Lisnagelvin JBO	93
	Lurgan JBO	104
	Magherafelt JBO	94
	Newcastle SSO	33
	Newry JBO	150

Estate	Property	Current Occupancy
Regional Jobs & Benefits Offices	Newtownards SSO	47
	Omagh JBO	148
	Portadown JBO	80
	Strabane SSO	53
Total		**17,759**

Transferred Estate: Current and Future Occupancy and Capacity after Refurbishment @ April 2007

Estate	Property	Current Occupancy	Capacity After Refurbishment	Comment
Belfast City Centre	Adelaide House	400	657	
	Castle Court	1,100	1,307	
	Causeway Exchange	Vacant	602	
	Centre House	212	-	Plan to vacate
	Clare House	500 (plus 100 short stay spaces)	500 (plus 100 short stay spaces)	No increase planned
	Clarence Court	755	1,271	
	Design Centre	300	-	Plan to vacate
	Design Centre replacement	-	510	Provided by Private Sector Partner
	Goodwood House	530	606	
	Hydebank	310	-	Plan to vacate
	Interpoint	180	-	Plan to vacate
	James House	650	975	
	Klondyke	425	425	No increase planned
	Lesley Exchange	Vacant	133	
	Lighthouse	360	485	
	Lincoln Building	281	-	Plan to vacate
	Decant Hub	-	500	Long-term replacement for Lincoln Building
	Millennium House	221	351	
	River House	263	-	Plan to vacate
	Royston House	111	-	Plan to vacate
	Waterfront Plaza	111	-	Plan to vacate
	Windsor House	167	-	Plan to vacate

Estate	Property	Current Occupancy	Capacity After Refurbishment	Comment
Stormont Estate, adjacent area and Rathgael	Castle Buildings	1,000	1,468	
	Castle Buildings Annexes	550	-	Plan to vacate
	Craigantlet Building	111	-	Plan to Vacate
	Dundonald House	1,099	-	Plan to vacate
Stormont Estate, adjacent area and Rathgael	New Build Stormont	-	2,300	New Building
	Dundonald House Annexe A	39	-	Plan to vacate
	Dundonald House Annexe B	16	-	Plan to vacate
	Dundonald House Annexe C	54	-	Plan to vacate
	Dundonald House Annexe D	20	-	Plan to vacate
	Hillview Buildings	55	-	Plan to vacate
	Knockview Buildings	178	-	Plan to vacate
	Massey House	100	-	Plan to vacate
	Netherleigh	400	-	Plan to vacate
	Rosepark Site	58	-	Plan to vacate
	Rathgael House (currently counted as 2 buildings – New Building and Tower Block)	1,045	342	(New Part only)
Regional Estate	Ballymena County Hall	660	815	
	Carlisle House	290	276	
	Coleraine County Hall	433	536	
	Marlborough House	629	898	
	Orchard House	330	477	
	Rathkeltair House	254	-	Plan to vacate but commitment to retain jobs in area
	Waterside House	281	380	
Greater Belfast Jobs & Benefits Offices	Andersonstown SSO	160	160	No increase planned
	Bangor SSO	88	88	No increase planned
	Corporation Street SSO	168	168	No increase planned
	Falls JBO	110	110	No increase planned
	Holywood Road JBO	150	150	No increase planned
	Knockbreda JBO	96	96	No increase planned
	Newtownabbey JBO	82	82	No increase planned
	Shaftesbury Square JBO	110	110	No increase planned
	Shankill JBO	88	88	No increase planned

Estate	Property	Current Occupancy	Capacity After Refurbishment	Comment
Regional Jobs & Benefits Offices	Antrim JBO	150	150	No increase planned
	Armagh JBO	107	107	No increase planned
	Ballymena SSO	67	67	No increase planned
	Ballymoney JBO	77	77	No increase planned
	Ballynahinch SSO	30	30	No increase planned
	Banbridge JBO	65	65	No increase planned
	Carrickfergus JBO	55	55	No increase planned
	Coleraine JBO	212	212	No increase planned
	Cookstown SSO	30	30	No increase planned
	Downpatrick SSO	36	36	No increase planned
	Dungannon JBO	143	143	No increase planned
	Enniskillen JBO	126	126	No increase planned
	Foyle JBO	277	277	No increase planned
	Kilkjeel JBO	33	33	No increase planned
	Larne JBO	85	85	No increase planned
	Limavady JBO	70	70	No increase planned
	Lisburn JBO	92	92	No increase planned
	Lisnagelvin JBO	93	93	No increase planned
	Lurgan JBO	104	104	No increase planned
	Magherafelt JBO	94	94	No increase planned
	Newcastle SSO	33	33	No increase planned
	Newry JBO	150	150	No increase planned
	Newtownards SSO	47	47	No increase planned
	Omagh JBO	148	148	No increase planned
	Portadown JBO	80	80	No increase planned
	Strabane SSO	53	53	No increase planned
Total		**17,759**	**19,423**	

Requests for Information to DFP arising from meetings of the Committee for Finance and Personnel

Information Required	Departmental Response	Deadline	Date Requested	Date Received	Date Considered by CFP
Workplace 2010					
NISRA report on further evaluation of Clare House		End Oct 07	Thur. 21 June		
With regard to the List of Transferred Estate Current Occupancy provided by DFP please supply the following information:					
Would the categories given under 'Estate', and the corresponding properties, be used in the measurement of dispersal, if such a policy were to be adopted in future?	No. The categories are of no relevance to any debate on dispersal. The buildings were grouped geographically only for the purposes of bidder documentation. On reflection, DFP shouldn't have included this in the table to the Committee as it has probably caused unnecessary confusion as the categories don't actually mean anything.	Fri 29 June	Thur 28 June		
Within these categories why is Rathgael House under Stormont Estate?	As Rathgael House is currently the departmental headquarters for 2 departments it has always been included as part of the Greater Belfast area although DFP accept fully that it is not geographically part of Greater Belfast. For the purposes of the bidders' documentation it was categorised as "Stormont Estate, adjacent area and Rathgael". It was not specifically included in the Stormont Estate nor is it regarded as part of the Estate.				
Within these categories why is Bangor SSO under Greater Belfast, whereas Newtownards SSO is under Regional?	Again given the adjacency to Rathgael House in Bangor DFP included Bangor SSO under Greater Belfast for the convenience of the bidders. However within the Jobs and Benefits network it is not regarded as part of the Greater Belfast area.				
What is the occupancy capacity potential for each building?	See attached table which shows the occupancy of the buildings DFP intend to retain and those which are planned to be vacated.				

Northern Ireland Audit Office response to Committee questions, 26 June 2007

Part A – General Questions

1. **What would you consider to be the main risks in a project such as Workplace 2010?**

Each PFI project will have its own unique risks but in relation to a project such as Workplace 2010, some of the potential key risks may be (and this list is not exhaustive):

- Long term demand inaccurately assessed e.g. need to build in flexibility to deal with potential changes to requirements;
- Potential for taxpayer to share in any windfall gains to private sector operator not fully realised;
- Insufficient safeguards for taxpayer in circumstances where the contractor fails to deliver services or gets into financial difficulties;
- Performance Management: Unclear output specifications; ineffective performance measures, availability payments or other indicators or penalty schemes;
- Good deal not secured because of insufficient competition and or weak negotiation;
- Inadequate control of project costs up to and including securing the deal (includes consultancy, advisor and in-house costs);
- Asset Valuation; risk that assets may be undervalued on transfer to/from the private sector partner.

2. **How should the allocation of risk be determined? What is the impact of this?**

- Risk should be allocated to the party in the agreement who can best manage that risk but it is necessary to have a uniform understanding of the definition, scope and the extent of the risks.
- It is an important feature of risk management that the likely impact of risks are identified, fully costed and the "premium" cost recognised where risks are transferred – this should be transparent in the bidders' financial models.

3. **PFI builds up long term commitments. What assurance is there that these are affordable?**

One of the advantages of PFI, is price certainty over the period of the contract. And HMT publication "*Value for Money Assessment Guidance*" issued in August 2004 emphasises the importance of considering affordability in major projects. In particular it defines affordability as what is affordable within the department/Procuring Authority's spending allocation. Authorities should consider;

- whether the specifications envisaged take full account of this likely spending envelope;
- once the settlement for the spending period has been finalised, whether the affordability assumptions still hold and the impact changes may have on priorities and timing;
- Crucial to establishing affordability will be the inclusion of Optimism Bias (the risk of underestimating the estimated future cost) in any calculation of a project's cost;

- Similarly it will be important for the Procuring Authority to take a view on the likely balance sheet treatment of the project and to budget accordingly.
- At a macro level, where projects are funded through PFI/PPP, there are longer term implications in terms of repaying commitments/borrowings and assessing the impact on the future affordability of capital investment programmes. This was one of the issues raised in our December 2006 report, Reinvestment and Reform Initiative: Improving Northern Ireland's Public Infrastructure.

4. **Where assets are transferred from the public sector how can the public sector protect itself against windfall gains?**

- Before including surplus assets in any deal the relative returns and priority between inclusion and conventional disposal should be assessed.
- Where inclusion is deemed appropriate, it is important when public bodies enter into complex agreements, such as PFI contracts, that controls are in place to protect their future interests. This includes ensuring that valuations are up to date and reflect market value. Clawback arrangements, which should be thought through and built into the contract, are aimed at protecting Departments/Authorities from excess profits or valuation risk in the subsequent development, transfer or selling on of land or property.

5. **What steps can be taken to ensure that services are being delivered as specified in the contract?**

Key steps should include:

- Effective project management and monitoring arrangements;
- Effective performance management regime based on clear and concise output specification
- Developing an effective long term partnership
- Clearly defined contract terms that are understood by all parties to the agreement.

6. **How can the public sector get value for money from consultants?**

- Competitive tendering and appointment based on price, quality and expertise;
- As with all expenditure, a full, but proportionate, business case should be completed for external consultancy contracts
- Defining the need for consultants and developing terms of reference for the assignment;
- The Finance Director in each department should be satisfied that arrangements are in place that will ensure that the consultancy project is properly managed. This may include capping of fees or payment on achieving key milestones.

7. **How should conflicts of interest be handled?**

- Main area of conflict is in consultancy.
- Careful structuring of the arrangements for corporate governance is important. Public Bodies should remain alert to the risk of potential conflicts of interest e.g. where consultants may also provide services in a given project to both the public sector and a potential service provider. This issue was highlighted in our report on *Private Finance Initiative: A Review of the Funding and Management of Three Projects in the Health Sector (HC 205) 2003-04*.
- Serious conflicts of interest should be avoided rather than managed.

- Those bidding for consultancy should be required to declare conflicts or potential conflicts of interest.
- Often the use of "ethical walls"[1] are used as a safeguard in dealing with potential conflicts of interests. However, they are not, of themselves, acceptable to mitigate conflicts. Although they can be effective it is difficult to prove that they have not been breached.

8. **Given that contracts such as this can last for up to 20 years, how can we be sure that we will get value for money over such a long period, especially in respect of 'soft' services such as cleaning and portering?**

- The NAO Report "*Benchmarking and market testing the ongoing services component of PFI projects"* published in June 2007 stresses that services, such as catering and cleaning, should be tested at intervals, typically every five to seven years. The services are often a significant part of the total cost of a PFI contract and so the process of value testing is an important aspect in seeking to achieve value for money from a PFI contract which may run for 25 or 30 years or more. Value testing may involve comparing information about the current service provider's provision with comparable sources [benchmarking] and/or, inviting other suppliers to compete with the incumbent in an open competition [market testing].
- These mechanisms need to be built in at the outset.

9. **The Committee requested information on the international experience of running PFI contracts, particularly with respect to the renegotiation of contracts after their 20-25 year life and the potential monopolistic situation that may arise. Can you please provide any relevant information on the international experience in this regard (for e.g. New South Wales)?**

- Difficult to determine what the market will in 20-25 years time. But there is potential within this timescale for the market to be stimulated to avoid a monopolistic situation arising.
- The earliest PFI contracts date from the early 1990s in the United Kingdom. It means that even the earliest accommodation type projects have not yet reached the end of their life, so the specific question cannot be addressed. Potential monopolistic situations can be averted by the public sector ensuring that there continues to be competition and competitive tension in the competition for new PFI contracts.
- When a contract reaches the end of its expected life, tendering for a new contract is an alternative to renegotiation/extension of the contract with the private sector incumbent. However if there is a situation of a single prospective bidder or a negotiation with an incumbent supplier, the use of a 'should cost' model and the application of lessons learned over the period of the former contract can mitigate the risk highlighted in the Committee's question. In this respect, experience from the UK on the expansion of the PRIME project and reported on by NAO in January 2005 is the most relevant experience to date and demonstrates that the public sector can still achieve a good deal.
- The NSW Auditor General's report, published in November 2004, whilst not dealing specifically with accommodation, provides a report card on savings identified and discusses impediments to achieving the benefits from shared services – a summary is provided at Annex 1.

10. **What happens to assets at the end of a PPP project?**

Key considerations within the "*Standardisation of PFI Contracts, Northern Ireland 2004 and 2006 (revision) (SoPCNI 2)"* include*;*

1 *The ethical (not physical) barrier between different divisions of a financial (or other) institution to avoid conflict of interest.*

- Dependent upon the contract terms and the nature of the services provided, where the infrastructure is specialized or there is a long -term public sector demand for the associated services, the public sector will retain residual value risk. This attracts a higher unitary charge in the expectation that the contractor will maintain the assets so that they are fit to be used, if the useful economic life is longer than the contract period.
- If the residual value risk is transferred to the contractor, there should be a lower charge as the contractor will be expected to rely on value being left in the assets remaining on the expiry date to recover the complete cost of financing its investment. The contractor can realize the value in three possible ways depending on what the Authority decides to do at the end of the contract;
  1. Take over the asset, making a payment to the contractor.
  2. Re-tender the service, with any new contractor paying the previous contractor for any assets taken over.
  3. Handover to Contractor. The contractor realizes the value, if the Authority has no further use and walks away at no further cost to itself.

11. **How can you ensure that you get a proper market value at the end of a contract period, as often government occupancy will enhance the value?**

In ensuring that market value is achieved it is important that;

- The methodology or basis for valuation of assets at the end of the contract term should be built into the agreement and agreed by both the private and public sector partners.
- (This would only be relevant to scenario 1 above) All valuations should be supported by independent and up to date valuations. These may be enhanced through benchmarking against comparable private sector accommodation.

Part B – The following questions refer specifically to the report included in the Audit Office presentation of the Public Accounts Committee Report "Delivering better value for money from the Private Finance Initiative" 2003

12. **Best Practice: What are the obstacles to the dissemination/adoption of best practice? What measures can be taken to ensure due cognizance is taken of best practice?**

There are well established arrangements for ensuring that Public Accounts Committee recommendations, Memoranda of Response and other good practice are widely circulated too Departments and associated bodies – this is part of DFP's responsibilities. It is important that NI Departments take cognizance of these in taking forward projects and we would expect to see documentary evidence that this has been done.

- The Public Accounts Committee report highlighted that many departments needed to get better at procuring and managing contracts. The Committee's concern was based on their experience of contracts which were negotiated before the development of standardized procurement guidance and advice from Treasury, Partnerships UK and the Office of Government Commerce. Partnerships UK have also established a unit to advise on operational issues.
- It is also important that the public sector has sufficient personnel with the right skills, knowledge and experience at each stage of a procurement's life cycle and the subsequent contract period. If the

Gateway process works well, it can act to ensure that the public sector adopts and applies good practice at the relevant stage of a project's life

13. **Public Sector Comparators: Is there any objective assessment carried out of the business case identifying PFI as the preferred procurement option before the contract is let?**

- The approach to any procurement should be to consider all the relevant options. Projects which do not fit with the corporate strategy or priorities should not be pursued. PFI should not be used on projects where it is contrary to policy guidance e.g. IT projects.
- The role of the Public Sector Comparator was more clearly defined in the Treasury guidance issued in 2004 ("Value for Money Guidance"). It is at the Outline Business Case stage that encompasses both a quantitative and qualitative element and is the last point in the VfM decision process where there is a quantitative analysis of the optimum procurement route. It enables Procuring Authorities to assess why and make adjustments where appropriate and, where necessary, to switch to conventional procurement.
- Objectivity is facilitated by intelligent quantitative and qualitative assessment which also demonstrates that PFI is an affordable, value for money solution. Proceeding with a PFI procurement is not a decision to be taken at a single point in time and not revisited, but should be reaffirmed at a senior level when there are major decision points in the procurement, particularly before the contract is signed to ensure that the deal still makes sense. Significant changes in the strategic or operational context may also be a trigger in considering whether PFI is the preferred procurement route.

14. **Effective Management: Effective contract management is critical to the success of the contract, but this is impossible to evaluate until the contract is up and running, by which time it may be too late. What are the characteristics of success contract management arrangements associated with, what may be considered, successful PFI contracts? What measures can be taken to ensure that these arrangements are in place before the contract is let?**

- The characteristics of successful contract management arrangements include performance measurement systems and payment mechanisms that cover all relevant aspects of the Authority's business and reflect the level of service provided.
- The Authority's requirements may change over the life of a contract. There should be adequate contract provisions for handling changes or variations to the Authority's requirements including adequate procedures for resolving any disagreements or disputes arising from such changes.
- The Authority should begin considering prior to the start of tendering what should be the governance arrangements for formal issues (e.g.; dispute resolution procedures) once the project becomes operational.
- Appropriate contract management arrangements would include the establishment of responsibilities for monitoring the contract. Ensuring the key staff monitoring the contract have the required knowledge and skills. And appropriate processes for resolving day-to-day operational issues.
- It is good practice for all of the above arrangements to be in place before a contract is signed. Where there is a pre-operational implementation phase after the contract is signed, it is acceptable during that period to brief and/or train staff on the changes to be expected once the operational phase commences.
- Baselining provides the Authority with clear comparative data for assessing the PFI contractor's performance in the operational phase. The ideal scenario is to apply to the current service regime, the performance measurement regime proposed for the contract.
- There are other arrangements, not necessarily written into any contract, but generally conducive to good working relationships at both senior and operational levels. At a more senior level, these

would include both parties developing a common business focus for the project, creating an open and honest environment and the contractor being kept abreast of the Authority's strategic direction. At an operational level, it is helpful for the PFI company staff to have an appropriate understanding of the Authority's business, the co-location of staff and the relevant individuals from the PFI company being accessible whenever there is a need to discuss issues.

15. **Financing costs: How can greater certainty be brought to the assessment of financing costs? Is there any objective assessment of the financing costs?**

- It is generally recognised that Government can borrow more cheaply than the markets. However, financing is only one aspect in assessing the value for money of a deal and the costs of private finance should always be as transparent as possible. It should reflect the risk of the project and in line with what can be obtained in the market. In other words, cognizance should be taken of the due diligence work carried out by potential funders – they will assess and price the risks accordingly. An objective measure of the relative costs of financing would be the interest rates for PFI companies relative to the gilt rate. Authorities should also consider the method of financing - in some instances it may be more cost effective to have bond rather than bank financing – and for larger projects, the process by which the financing arrangements have been secured. An early example of this was the funding competition for the HM Treasury building.

16 **Maintaining pressure for value for money: The report on Managing the Relationship in PFI projects was published in 2002. In the intervening period is there any sense that the appropriate mechanisms the [National] audit office refer to are now standard elements in the PFI contract?**

- Further work has been undertaken on standardizing contract terms. For those projects providing services that can be value tested (i.e.; market testing, benchmarking), recent work by the NAO indicates that market testing clauses in recent contracts have become more effective since the introduction and iterations of standard contract terms (SoPC).
- More recent contracts now make specific provision for the public and private sectors to equally share in any gains arising from refinancing of the debt on the project.

17. **Safeguarding the taxpayer if the contract fails to deliver: It is impossible to legislate for how the department will respond when faced at some point in the future with a failure in service delivery. Can the audit office comment on this risk and identify any measures that have been introduced in other PFI contracts that may mitigate risk in this respect?**

- One of the precepts of PFI contracts is that the contractor's profit/margins should be at risk if there are failures in service delivery. It is not good practice for Authorities to waive deductions for contractual failures in service delivery.
- For those contracts with provisions for market testing, there is an ongoing incentive for the private sector contractor to deliver a high quality of service.
- The NIAO Report "The Private Finance Initiative: Electronic Libraries for Northern Ireland (ELFNI)" highlighted where contingency plans were drawn up to address concerns about the financial viability of the service provider and potential contract default.

Annex 1

New South Wales Auditor-General's Report

Performance Audit

Shared Corporate Services: Realising the Benefits (including guidance on better practice) November 2004

Summary

1. Shared service arrangements are used in both the public and private sectors to reduce costs and improve productivity. These arrangements typically cover services such as human resources, finance, information technology and office support. In 1996, the New South Wales Government created the Central Corporate Services Unit (CCSU) as a first step in achieving these benefits. In 2002, the NSW Government released a more wide-ranging *Shared Corporate Services Strategy*, recommending that agencies reduce costs and improve services by introducing shared arrangements. The NSW Auditor General's audit published in November 2004 provides a report card on savings identified and discusses impediments to achieving the benefits from shared services. It also looks at what's happened with the CCSU.

Key Findings

2. Key finding of the Report include;

- Planning for and managing "benefits realisation" emerged as a key component in such reforms.
- Under appropriate conditions, shared service arrangements are a proven method for obtaining significant cost savings from productivity improvements and economies of scale.
- Benefits realised in NSW from shared services are significantly below what was expected.
- Most agencies had yet to fully implement the Government's shared services strategy supporting productivity and salary increases.
- The benefits from shared services could take an additional 2-3 years to realise, particularly in large agencies.
- A number of factors have impeded progress and may restrict benefits. Firstly, over 88 per cent of the estimated cost savings reside in large agencies that have been slow to implement the changes. Secondly, information systems, processes and governance arrangements vary from one public sector organisation to the next. Systems are often incompatible and efficiency gains may be limited by the inability to standardise processes. This is exacerbated by limited investment funds to standardise systems, especially in large agencies.

Lessons In Implementing Shared Services

3. The Auditor General's Report also identifies five Key factors for successful implementation;

- Making appropriate Upfront decisions
- Complete a feasibility study and develop the business case
- Develop service level agreements
- Develop Governance Arrangements
- Consider approach to implementation
- Establish a benefits realisation program

Links

http://www.audit.nsw.gov.au/publications/reports/performance/2004/corporate_services/SharedCorpServices-Nov2004.pdf (Link to Auditor General's Report)

Appendix 4

Other Papers

Committee on the Programme for Government Report on Workplace 2010 and Public Sector Jobs Location (15 January 2007)

Executive Summary

Introduction

1. The Sub-Group on Workplace 2010 and Public Sector Jobs Location, established by the Committee on the Programme for Government, met on 3 occasions during December 2006 to review progress on Workplace 2010, examine key issues in relation to public sector jobs location and prepare an associated report.

Evidence

2. The Sub-Group heard evidence from the Department of Finance and Personnel (DFP) and the Northern Ireland Public Service Alliance (NIPSA); it also considered documents submitted by the Committee on the Administration of Justice, an article written by John Simpson (an economic commentator) and it reflected on 'decentralisation' as experienced in Scotland and the Republic of Ireland.

Letter from the Secretary of State

3. The Sub-Group noted, with some dissatisfaction, the terms of a letter from the Secretary of State, dated 30 November 2006; the letter is reproduced elsewhere in this report.

Workplace 2010

4. The Sub-Group acknowledges the commercially sensitive, and advanced state of the procurement process, in relation to letting the Workplace 2010 contract, and the resultant constraints this places on the Sub-Group's examination of this issue. Nevertheless, the Sub-Group considers that any contract relating to Workplace 2010 should contain provisions to allow for:

- The full realisation of benefits to the taxpayer, such as profit-sharing and claw-back
- Premiums and surcharges to the unitary charges to be tightly controlled
- No compulsory transfer of public sector staff to the private sector and
- The accurate evaluation of the assets

5. Additionally, the Sub-Group considers that it is essential to have a modern and efficient suite of offices to enable the effective delivery of public services. One of the desired outcomes of Workplace 2010 should therefore be to ensure that there are enhanced working conditions for civil servants.

6. The Workplace 2010 contract should not act as a constraint on any future policy on public sector jobs location that an incoming Executive may wish to pursue.

Equality, Social and Economic Effects

7. The Sub-Group has concerns about the specific economic impact on those local businesses presently providing services to government offices and who might be displaced as a result of the award of the Workplace 2010 contract. The Sub-Group calls on a restored Executive to monitor the position and consider what interventions might be possible.

Private Finance Initiative (PFI)

The Sub-Group has concerns about

- 'Doubling the debt' as a result of selling off parts of the government office estate, simply to secure an up front, one-off payment, in the order of £200m, to bolster public spending in Northern Ireland; and
- The potential loss of jobs in the public sector as a result of letting the Workplace 2010 contract and calls on a restored Executive to undertake an urgent examination of policies, which appear to favour PFI solutions.

The Sub-Group calls on a restored Executive to undertake an urgent examination of policies, which appear to favour PFI Solutions.

Public Sector Jobs Location

9. The Sub-Group advocates, subject to careful consideration of the costs, an affirmative policy for the dispersal of public sector jobs which would take account of existing strategies for equality, rural development, sustainable development and targeting social need. The Sub-Group calls on a restored Executive to proceed to develop and implement such a policy, for the benefit of the whole of Northern Ireland, as a matter of priority.

Briefing Paper 13 June 2007

Workplace 2010

Dr. Peter Gilleece
Senior Research Officer
Research and Library Services

Workplace 2010

1.0 Background

Workplace 2010 is a major element of the Civil Service Reform Programme initiated to address some urgent accommodation problems within the NICS office estate. It is a co-sponsored programme between the Department of Finance and Personnel (DFP) and the Strategic Investment Board Limited (SIB) to create a modern, flexible working environment to support a modern civil service, to make improvements in estate management arrangements and ultimately to help the NICS transform the way it delivers public services.

Much of the estate is in a poor state of repair due to the lack of investment in recent years. It is also inefficient and inflexible and inhibits the development of new working practices and ways of working. Accommodation which is in relatively good condition is also at risk of decline in the absence of substantial investment to maintain the infrastructure of the buildings. The Workplace 2010 project will adopt best practice in the public and private sector to upgrade the estate and create the infrastructure to support a modern, fit for purpose civil service. By introducing an open and flexible working environment, enabled by technology, the existing floor space can be used much more efficiently resulting in a reduction of about 20% in the Greater Belfast area.

The Outline Business Case considered a number of options including traditional procurement and recommended that a Total Property PFI solution clearly provided best value for money. This means that ownership of the specified properties transfer to a Private Sector Partner (PSP) in return for a significant capital payment. The PSP is then responsible for maintaining and servicing the accommodation in return for a monthly payment known as a unitary charge for the period of the contract.

Objectives of the Programme

The key strategic objectives of the programme are to enable the NICS to transform the way it delivers public services; to provide accommodation in which staff are proud to work; and to safeguard funding for priority front line services.

Scope of the contract

This is a large and complex programme involving about three quarters of the office estate and is likely to affect around 18,000 staff. The transaction has a number of key elements including the asset transfer of 77 buildings about half of which are in the Greater Belfast area. The remainder are in a number of regional towns and include the Jobs and Benefits Office network.

The PSP will be required to make a significant capital payment upfront for the transferred assets which, DFP advise will inject considerable spending power into the Northern Ireland Block for reinvestment in priority front line services. The PSP will also be required to invest in excess of £100m into the estate to upgrade and refurbish about 15 key properties; to manage the movement of about 11,000 staff into the newly refurbished accommodation; and to maintain and service all remaining properties thereafter for the lifetime of the contract. The total value of the contract is estimated to be in the region of £1.5bn and has the capacity to bring lasting economic benefits in terms of employment, sustainability and wider corporate social responsibilities.

Procurement Position

In early November, four bidders, Land Securities Trillium, Mapeley, Partenaire and Telereal, submitted their detailed proposals for the programme. Following evaluation of the bids Land Securities Trillium and Telereal were announced as the two highest scoring bidders at the Invitation to Negotiate stage. The programme, which was introduced by Direct Rule Ministers, will shortly be considered by the Northern Ireland Executive. If the Executive give approval to proceed with the competition the two bidders would then be invited to submit Best and Final Offers with a view to letting the contract early in 2008.

Key Issues

There are a number of key issues for the programme the most significant of which were raised by the Programme for Government Committee earlier this year. The Committee considered Workplace 2010 as one of its priorities for the new Executive and, whilst supporting the need for a modern efficient estate, the report outlined some concerns and asked that the contract should contain provisions to allow for;

- The full realisation of benefits such as profit sharing and claw back;
- Tight control of premiums and surcharges to the unitary charges;
- No compulsory transfer of public sector staff to the private sector; and
- The accurate evaluation of the assets.

It also stated that the contract should not act as a constraint on any future policy on public sector job location.

Facilities Management

It is intended that services such as catering, cleaning, reception, security and so on would be included in the contract. This is based on Treasury guidance and good practice which indicates that there are value for money benefits where these are delivered by the PSP who owns and is responsible for the assets. In the case of Workplace 2010 cleaning, catering and the majority of security work (all of which accounts for about 70% of the facilities management costs) have already been outsourced for many years. The issue therefore relates to the potential transfer of support grade staff who currently carry out reception, security and messenger work. Whilst it is the programme's intention to transfer these functions to the private sector partner it has set a clear objective that there would be no compulsory transfers. Processes have been put in place to allow support grade staff, for the first time to transfer to administrative jobs within the civil service and many staff have indicated that they would like to consider this option. This is however one of the issues on which final decisions have yet to be taken.

A full Equality Impact Assessment (EQIA) has also been carried out to identify equality issues or differential impacts of the programme. The report, which was published in May 2007, indicated that whilst there were potential differential impacts there were sufficient measures in place to mitigate against these.

Dispersal

Dispersal of civil service jobs from the Greater Belfast area continues to be a key political issue. The impetus for Workplace 2010 was the need to address significant accommodation problems and as such it was never intended as a vehicle for driving dispersal. However the civil service position is that whatever the solution the NICS and the PSP must be in a position to respond quickly and effectively to any future policy directive from the Executive on the dispersal of jobs. The programme is therefore being progressed on a phased basis, the first phase incorporating about three quarters of existing office space which will leave considerable scope to relocate civil service jobs as part of a second phase as and when decisions are made. The contract will also have to be sufficiently flexible to accommodate future change on a significant scale.

Further to the recommendations made by the sub-group of the Preparation for Government Committee, the Committee may wish to ask for an update on the issue of compulsory transfer of public sector staff to the private sector.

2.0 Pilot Project

The Northern Ireland Research and Statistics Agency (NISRA) carried out a Health Check Review for the Workplace 2010 project in March 2007. New office accommodation, Clare House is the Pathfinder for Workplace 2010.

Summary of Recommendations

The Report's key recommendations for the Central Procurement Directorate (CPD), the Delivery and Innovation Division (DID) and the Strategy Investment Board (SIB) are as follows:

- Review and develop existing workplace protocols to address issues such as interruptions, noise and distractions. Continue to monitor and review;
- All staff suggestions and expectations to be considered / explored, (areas suggested for improvement include: communication, IT systems, heating system, telephony systems, car parking and canteen facilities). Feedback to staff on the status of suggestions will need to be provided;
- Communication around IT issues is perceived as poor, in particular regarding timeliness and clarity. This should be addressed via Clare House ICT group;
- The findings and agreed forward actions from this interim evaluation need to be effectively communicated to staff. Offering a staff briefing, and on-line provision of this report might be appropriate.

The Report's key recommendations for Workplace 2010 are as follows:

- Review and refine implementation processes to ensure projects are ready before occupation of staff - set realistic timeframes and build in contingencies to minimise disruption. In particular, allow for robust testing of new technologies;
- Ensure departmental collaboration in undertaking an existing IT audit, and develop the most appropriate and innovative specification for future needs;
- Explore possibilities for modifications to the Clare House layout which could alleviate some of the reported noise and distraction issues;
- Progress planning of formal post occupancy evaluation for May/June 2007, establishing suitable performance measures.

The Committee way wish to request a response from the Department to the Health Check Review

3.0 Possible way forward for the Committee

The Preparation for Government Committee published a report on Workplace 2010 in January. The main conclusions/recommendations of this report are provided in appendix A.

It may not be appropriate for the Committee to revisit the terms of the previous report, notwithstanding new witnesses or additional information being submitted. It is also not possible to undertake an objective assessment of the Workplace 2010 project at this commercially sensitive stage of the procurement process. We are dependent entirely on information made available to us from the Officials responsible for the project.

A more expedient approach for the Committee may be to consider the role of those with the authority and responsibility to evaluate the progress of a procurement exercise of this scale. In 2005 there were 57 PFIs that had either been awarded, were about to tender, or were potential projects in Northern Ireland. The Strategic Investment Board, established to take forward a £2bn planned capital investment programme will significantly raise the average value of PFI projects.

There is therefore significant experience and expertise within The Northern Ireland Audit Office, the National Audit Office and the Office of Government Procurement of evaluating substantial PFI procurement projects and understanding the factors that will contribute to successful projects and the potential failings.

3.1 The Northern Ireland Audit Office

Of the 26 operational PFI projects in 2005, the Northern Ireland Audit Office (NIAO) had reviewed 12 in terms of value for money. It may be expected that the Audit Office would at some point undertake a review of a project as large as Workplace 2010.

Best Practice

An audit office report on three projects in the health sector identified fourteen generic Best Practice points[1] (appendix B). Six key issues are set below:

1. A Public Sector Comparator (PSC) or "Should Cost" model should be produced, even if conventional finance is not available, in order to reach a properly informed decision on the value for money of PFI deals. However the results from these should not be regarded as a simple pass/fail; selecting the best deal also requires a multi-dimensional evaluation and application of informed judgement taking into account factors such as certainty of delivery and quality outputs;

2. Appropriate risk allocation between the public and private sectors is the key to achieving value for money in PFI projects. Public sector organisations should identify the scope for risk transfer in advance. This will facilitate optimum transfer by allocating individual risks to those best placed to manage them.;

3. Procuring bodies should attempt to accommodate within the scope of the original deal any changes to their requirements, which they can foresee at the time. Contracts should also contain proper procedures for introducing and controlling unforeseen changes to services;

4. Robust monitoring arrangements, to ensure contract compliance, should be established and applied;

5. Procuring bodies should have in place effective mechanisms to claw back part of any future windfall gains that a supplier may earn so there is at least a sharing of such benefits;

6. Projects should be subject to an ongoing programme of evaluation to confirm that expected benefits continue to be delivered and to identify key lessons for wider dissemination.

The issue of the management of the contract following the procurement process has been identified as a critical one. According to the Public Accounts Committee 23 per cent of procuring authorities surveyed in 2002 considered that there had been deterioration in the value for money achieved by their PPP projects, since contract award[2].

1 *'The Private Finance Initiative: A Review of the Funding and Management of Three Projects in the Health Sector', HC 205, 5 February 2004.*

2 *"In praise of good management" Colin Tenner, Partner PWC, Agenda NI p.41*

Contract management is defined as integral to the realisation of operational benefits and value for money. Price Waterhouse Coopers (PWC) suggest that this is more important than effective procurement for the success or failure of almost every project[3]. (See appendix C)

The Committee may wish to request that the Department address each of these best practice points in relation to Workplace 2010.

The Committee may also wish to consider the issue of contract management arrangements in place for the Workplace 2010 project following the outcome of the procurement process in respect of the concerns expressed above.

Most Recent Audit Office Report – MOT Testing Facilities

The Northern Ireland Audit Office has published five reports into PFI contracts let in Northern Ireland[4]. The most recent was the Vehicle Testing Facilities. A summary of the key findings of that contract and lessons learned are outlined below:

Background

- In Northern Ireland (NI), vehicle tests (MOTs) are conducted within the public sector by the Driver & Vehicle Testing Agency (DVTA);
- A 1996 appraisal identified the potential for procuring new equipment through PFI. The contract, known as MOT2, was signed in March 2001 with a total cost of £57 million;
- Since the contract was signed, the MOT2 equipment has not been accounted for as an asset in the financial accounts of DVTA, or those of the contractors. Thus, there is confusion as to the division of risks and benefits so far.
- This was one of the earliest PFI contracts of this scale in NI, thus the procurement process was not privy to extensive good practice guidance.
- Testing capacity was reduced during the phased installation of test centres, since two test centres were required to be closed at any one time. Other external factors also affected the provision of services; road safety initiatives resulted in large numbers of additional applications for vehicle tests, and there was a DVTA strike resulting in the cancellation of c.100,000 test appointments. This meant that many motorists were not able to use their vehicles legally – as a result DVTA issued some 520,000 certificates of temporary MOT exemption.
- To date, difficulties have been experienced in achieving the average test times and average waiting times targets for carrying out vehicle tests, as specified in the PFI contract;

Lessons to be Learned

- The capital components of the procurement were underestimated (initial estimates were £5m, but had increased to £14m by contract signature and the total lifetime value of the contract has finally been calculated at £57m). This under-valuation is considered to have undermined the procurement process, since potential bidders may have been uninterested in a relatively small value project;
- Following bidder appointment, negotiations were lengthy and warning signs are considered to have been shown with regards to the projects viability;

3 *"In praise of good management" Colin Tenner, Partner PWC, Agenda NI p.41*

4 *The PFI Contract for Northern Ireland's New Vehicle Testing Facilities March 2006*
Electronic Libraries for NI (ELFNI) Nov 2005
Building for The Future (PFI Education) Oct 2004
Review of the Funding and Management of Three Projects in the Health Sector Feb 2004
The PFI Contract for the E&LBs' New Computerised Accounting System Mar 2003

- There were significant differences between the ‘test’ and ‘live’ environments; shortcomings in the pilot centre meant that it was difficult to establish that full testing could be completed and sustained in a live environment;
- DVTA is responsible for providing a certain number of examiner hours per year, and the contractor’s liability for providing capacity is reduced in direct proportion to any shortfall. This shortfall has resulted in MOT2 equipment not being fully utilised and has contributed to the need for overtime;
- Complete and accurate information on testing times is essential to enable performance monitoring. Systems to enable the collection of this data were only established by DVTA in August 2003.

The Committee may wish to discuss the warning signs the report refers to with the Audit Office.

The Committee may wish the Department to respond to some of the generic issues raised in this report as they relate to Workplace 2010.

3.2 The National Audit Office

The National Audit Office (NAO) has published a report (see appendix D), which provides an updated approach for assessing whether PFI projects are being implemented well, across all phases of the project life-cycle, according to a set of key business-management imperatives. It also sets out how the framework can be applied by project managers, Private Finance Units and external evaluators.

The Committee may wish to discuss with the National Audit Office the key factors fundamental to the successful implementation of PFI projects.

The Laganside Courts

The National Audit Office prepared a report on the Laganside Courts PFI project. Some key issues arising from this report are set out below:

1. The Northern Ireland Court Service (the Service) decided, following an independent market study, to pursue a Private Finance Initiative (PFI) project to provide a new courts complex in Belfast to deal with Crown and County Court business. Advisers were appointed to assist in the procurement and a PFI contract was awarded to Consul Services Ltd (Consul) to design, build, finance and operate a 16 court complex.
2. The NAO examined the extent to which this PFI deal is likely to deliver value for money. Their report *Examining the Value for Money of Deals Under the Private Finance Initiative* (HC 739, 1998-99) provides an outline of the general methodology, which acts as the starting point for PFI examinations.
3. The Service considers that it has a modern building which meets all its operational needs. However, the Service did not undertake all the actions it might have prior to occupying the new complex. Performance monitoring was not fully operational and consequently, for an initial period, there were limited means by which performance against service standards could be measured.
4. The contract has in place a number of mechanisms which should help to protect value for money in the future, but there are limitations with the way availability and performance of the new building are reflected in the payments made to Consul. The monthly unitary charge of £300,000 paid to Consul includes fixed elements that limit the total abatement for unavailability to 44 per cent of the total amount due, even if the entire building is out of action.

   In addition, the abatements to the unitary charge if one of the Courts is unavailable appear relatively small. For instance, the non-availability of a standard Crown Courtroom would reduce the service payment by approximately £18 an hour, less than £150 a day. Such a deduction for non-availability seems limited and unlikely to be commensurate with the abortive costs associated with the postponement of proceedings for a day. In such circumstances, however, the Service would take action to ensure business continuity. The performance element of the monthly unitary charge is also proportionately small. An unacceptable standard of performance for a range of services, such as reprographics or cleaning, would result in a deduction of only some £6,000 a month.

5. The Service secured a reduction in the unitary charge from £4.2 million to £3.6 million a year in return for agreeing to limit the size of any abatement for non-availability or poor performance. The negotiated reduction was closely linked to what could be afforded for the new courts and ensured that a hard bargain on price was negotiated with Consul.

6. NAO suggest that the procurement process was handled well. The Service put together a business case, established an appropriate project management structure and appointed advisers after open competition. The subsequent bids were evaluated against a range of criteria and, although the Consul bid was not the cheapest, it scored most highly across the selection criteria.

7. Although a traditional procurement was ruled out at an early stage because of insufficient capital funding, the Service prepared a nominal public sector comparator to test the cost of a PFI deal. This indicated that the overall cost of the preferred bid was marginally less than a conventional procurement.

8. The Service considered the issue of risk allocation from an early stage in the procurement process and achieved an allocation similar to other private finance contracts of this nature - transferring design, construction, commissioning and operating risks to the private sector. Nevertheless, there is no evidence that the Service quantified the respective risks transferred and retained to enable a like for like comparison between the Public Sector Comparator and the PFI deal.

9. This was one of the earlier PFI deals and the new courts have only been up and running since February 2002. Nevertheless, it is apparent to the NAO that the new Courthouse is an example of imaginative and successful design of a building. There are, however, a number of points relevant to the forward management of the deal and the development of the PFI generally, that the NAO highlight:

A The Service should resolve the remaining problems with the building as soon as possible

Ongoing problems include; water ingress, the outstanding negotiations on price adjustments, and the indexation of the unitary charge.

B Performance monitoring should be kept under review

Adequate arrangements for measuring performance took a back seat to getting the courts operational. This exposed the Service to the risk of paying for what could have been sub-standard service delivery. Formal contract management arrangements are now in place and these must be kept under review.

C The payment mechanism must be agreed and tested before service delivery begins

To achieve a good price and keep the deal affordable, the Service agreed to limit the amounts that could be deducted for unavailability or poor performance. As the details of the payment mechanism had not been fully worked up at the time the deal was being negotiated, the Service was not in a position to consider fully the potential effect on the incentives to the private sector to provide acceptable standards throughout the 25-year term of the contract. In the circumstances, the Service should now ensure that the longer term benchmarking and market-testing provisions contained in the contract are used fully.

D Public Sector Comparators are subject to inherent uncertainty

Public Sector Comparators tell departments nothing about the benefits of alternative procurement methods and are subject to inevitable uncertainty, given the long timescales involved.

E The Service should have in place an agreed negotiating strategy if the deal is refinanced

The Service and its financial advisers believe that the deal was tightly negotiated and, as currently structured, the opportunities for a refinancing appear limited. However, an initial meeting has taken place between the parties and Consul may develop a proposal on refinancing for the Service's consideration.

The Committee may wish to meet with the National Audit Office to discuss the Laganside Courts PFI contract; to examine the critical issues raised in their assessment of the project and indicate how they would anticipate future PFI contracts to address these issues. The National Audit Office may also indicate the impact, if any, of one half of the construction partnership in the Langanside project ceasing to trade.

The Committee may wish the Department to respond to some of the generic issues raised in this report as they relate to Workplace 2010.

3.3 Office of Government Commerce

The Office of Government Commerce (OGC) is an office of HM Treasury, responsible for improving value for money by driving up standards and capability in procurement.

A new Government strategy launched in January 2007, Transforming Government Procurement (PDF), highlighted the central importance of procurement in delivering high-quality public services and best value for money.

OGC is tasked with delivering this transformation and with driving up standards and procurement capability across central government.

The OGC will do this through:

- Setting the right procurement standards and ensuring they are met;
- Capitalising on the Government's collective buying power to achieve value for money;
- And playing a stronger role in the successful delivery of major projects.

Gateway Review

Procurement projects such as Workplace 2010 are subject to OGC Gateway™ reviews. The OGC Gateway process examines the project at critical stages in its lifecycle, to provide assurance that it can progress successfully to the next stage. An OGC GatewayTM Review is conducted on a confidential basis for the Senior Responsible Owner (SRO) who is key instigator (initiator) of the Review. The ownership of the Review Report rests with the SRO who is accountable for the implementation of the recommended remedial action and the programme/project progression.

There are five OGC Gateway reviews during the lifecycle of a project, three before contract award and two looking at service implementation and confirmation of the operational benefits. There may be additional OGC Gateway reviews, if required, such as the decision points between OGC Gateway reviews 3 and 4 for construction projects.

The OGC Gateway Review is bound by confidentiality from discussing specific issues arising in the Workplace 2010 project. However the Committee may wish to investigate how the review team ensure the highest standards in procurement and their experience of reviewing significant PFI projects that successfully delivered value for money.

Appendix A

Report on Workplace 2010 and Public Sector Jobs Location by Sub-group of Committee on the Programme for Government: Sub-group's Main Conclusions/Recommendations.

1. **Sub-group recommendation**: that any contract relating to Workplace 2010 should contain provisions to allow for:
   - The full realisation of benefits to the taxpayer, such as profit-sharing and claw-back
   - Premiums and surcharges to the unitary charges to be tightly controlled
   - No compulsory transfer of public sector staff to the private sector and
   - The accurate evaluation of the assets
2. **Sub-group recommendation**: *Workplace 2010 should ensure that there are enhanced working conditions for civil servants.*
3. **Sub-group recommendation**: The contract should not act as a constraint on any future policy on public sector jobs location that an incoming Executive may wish to pursue.
4. **Sub-group conclusion/recommendation**: The sub-group had concerns about the specific economic impact on those local businesses presently providing services to government offices and who might be displaced as a result of the award of the Workplace 2010 contract. The sub-group called on a restored Executive to monitor the position and consider what interventions might be possible.
5. **Sub-group conclusion**: *The sub-group had concerns about:*

   'Doubling the debt' as a result of selling off parts of the government office estate, simply to secure an up front, one-off payment, in the order of £200m, to bolster public spending in Northern Ireland; and

   The potential loss of jobs in the public sector as a result of letting the Workplace 2010 contract and calls on a restored Executive to undertake an urgent examination of policies, which appear to favour PFI solutions.
6. **Sub-group recommendation**: The sub-group advocated, subject to careful consideration of the costs, an affirmative policy for the dispersal of public sector jobs which would take account of existing strategies for equality, rural development, sustainable development and targeting social need. The sub-group called on a restored Executive to proceed to develop and implement such a policy, for the benefit of the whole of Northern Ireland, as a matter of priority.

Appendix B

Northern Ireland Audit Office Report[5] - Summary of Best Practice Points

1. Project objectives should be clear, focusing on what procuring bodies want having regard to what private sector can supply;

2. Project management is a key requirement to delivering a successful project. This includes establishing the right team with the right skills at the right time and proportionate to the size and complexity of the project;

3. The appointment of consultants should be subject to a competition which takes full account of quality as well as price and, where applicable, the approval of the Department of Finance and Personnel;

4. Budgets for external advisory and internal costs should be set at the outset and monitored throughout the project;

5. A Public Sector Comparator (PSC) or "Should Cost" model should be produced, even if conventional finance is not available, in order to reach a properly informed decision on the value for money of PFI deals. However the results from these should not be regarded as a simple pass/fail; selecting the best deal also requires a multi-dimensional evaluation and application of informed judgement taking into account factors such as certainty of delivery and quality outputs;

6. Competition is central to getting value for money from PFI deals. Part of this is the creation of a good tender list of firms invited to bid. Accordingly, PFI projects should be widely advertised and, where appropriate, the market stimulated in order to maximise the submission of good quality bids;

7. Procuring organisations should be as open as possible with all interested parties throughout the procurement process. However care should be taken not to disclose information such as the PSC, which weakens their negotiating position;

8. Appropriate risk allocation between the public and private sectors is the key to achieving value for money in PFI projects. Public sector organisations should identify the scope for risk transfer in advance. This will facilitate optimum transfer by allocating individual risks to those best placed to manage them.;

9. In considering the objectives of a project and the degree of risk transfer which might be possible, bodies should be able to draw on expert advice, either from their financial advisers or from a Central source, as to the target rate of return which might be sought on the basis of the nature of the project and the risks involved for the private sector;

10. Procuring bodies should attempt to accommodate within the scope of the original deal any changes to their requirements, which they can foresee at the time. Contracts should also contain proper procedures for introducing and controlling unforeseen changes to services;

11. Where possible, procuring bodies should always seek to utilise standard PPP contracts from within the public sector, setting out the terms and conditions they expect, and negotiate on those;

5 *'The Private Finance Initiative: A Review of the Funding and Management of Three Projects in the Health Sector', HC 205, 5 February 2004.*

12. Robust monitoring arrangements, to ensure contract compliance, should be established and applied;
13. Procuring bodies should have in place effective mechanisms to claw back part of any future windfall gains that a supplier may earn so there is at least a sharing of such benefits;
14. Projects should be subject to an ongoing programme of evaluation to confirm that expected benefits continue to be delivered and to identify key lessons for wider dissemination.

Appendix C

Summary of main points raised in recent articles[6] by Chris Rainbird of Grant Thorton and Colin Tenner of PWC on the issue of PPPs.

"Key role for private finance in infrastructure development" (p.32)
Chris Rainbird, Director Grant Thorton,

- There have been more than 750 PPP deals in the UK market and 450 are in operation;
- Risks are now understood, lenders' appetites for PPP have increased and bank margins have fallen to as low as 0.5% in some areas of the market;
- This reduction is also due to wider financial markets becoming more comfortable with a maturing PPP/PFI market.
- This tightening of margins creates uncertainty as to long-term sustainability as banks begin to question the profitability of PPP/PFI deals;
- This has resulted in innovations in the financial packaging of PPP deals, for example the use of 'wrapped' bonds and debt.;
- However, whilst NI has benefited from the reducing cost of private finance, it is important to recognise, for future investment, that the PFI model will only be suitable for a proportion of projects;
- The Assembly will therefore need to consider alternatives, such as a property-based model as is being used on the Maze, the *Building Schools for the Future* programme i n England, the NHS primary care programme, or the third party development (3PD) model. Another option would be to consider the Scottish NPDO (Non Profit Distributing Organisation) model, which is being used to deliver new schools in Falkirk.

"In praise of good management" (p.41)
Colin Tenner, Partner PWC

- According to the Public Accounts Committee, 23 per cent of procuring authorities surveyed in 2002 considered that there had been a deterioration in the value for money achieved by their PPP projects, since contract award;
- Contract management is defined as integral to the realisation of operational benefits and value for money. Price Waterhouse Coopers (PWC) suggest that this is more important than effective procurement for the success or failure of almost every project;
- Some of the more common pitfalls associated with ineffective contract management include:
  - Only thinking about contract management after procurement;
  - Lack of contract awareness, training and staff continuity;
  - Development of adversarial ineffective relationships;
  - Using contract management to renegotiate the contract;
  - Implementing overly onerous monitoring regimes; and

6 *Articles appeared in the June 2007 issue of Agenda NI*

- Prioritising keeping the peace at the expense of enforcing contractual rights.

- The need to manage a contract should be recognised at the outset of every project and integrated into the procurement process from the initial planning stage onwards;
- Best practice experience indicates that the foundations of good contract management are laid during the procurement process and well before contract award;
- The contract itself should set out the framework for contract management;
- The Office of Government Commerce indicates that the resources required for contract management are equivalent to two per cent of the contract value;
- Investing in contract management can literally mean the difference between failure and getting more than you are paying for.

Appendix D

National Audit Office (NAO): Summary of the Framework for evaluating the implementation of PFI projects.

The NAO report provides an updated approach for assessing whether PFI projects are being implemented well, across all phases of the project life-cycle, according to a set of key business-management imperatives. It also sets out how the framework can be applied by project managers, Private Finance Units and external evaluators.

In 1999, the NAO reported on the value for money of PFI deals. The analysis was based on the following four "pillars":

- make the objectives clear
- apply the proper processes
- select the best deal; and
- make sure the deal makes sense.

The framework outlined in the 2006 NAO report builds on, but replaces, the four pillars;

The report identifies six distinct life-cycle phases through which a PFI project passes, as follows:

- Strategic Analysis
- Tendering
- Contract Completion
- Pre-Operational Implementation
- Early Operational
- Mature Operational

Past NAO work indicates that six key business themes come into play at any phase of a PFI project's lifecycle. These are as follows:

- The Project fits with the business requirements of the Authority
- PFI is the appropriate delivery mechanism
- Stakeholders support the project's progress
- There is good quality project management
- There is an optimal balance between cost, quality and flexibility
- Effective risk allocation and management is taking place.

As all size business themes apply across all six project life cycle phases, the indicators are set out in a matrix framework, which is intended as a tool to assess PFI project implementation, (but is not a replacement for official guidance).

Written Answer from DFP Minister to Assembly Question from Declan O'Loan MLA

The Rt Hon Peter D Robinson MP MLA, Minister
Craigantlet Buildings,
Stormont, Belfast BT4 3SX

Mr Declan O'Loan MLA
Northern Ireland Assembly
Parliament Buildings
Stormont 3 **July 2007**

AQW 826/07

Mr O'Loan has asked:

To ask the Minister of Finance and Personnel to list the number of public sector jobs, per 100 economically active people or otherwise, in each (a) travel-to-work area, (b) district council area, and (c) constituency, in Northern Ireland.

ANSWER

The number of full-time equivalent public sector jobs per 100 economically active people is as follows:-

(a) travel-to-work areas

Ballymena	16.8	Enniskillen	17.3
Belfast	28.1	Mid-Ulster	14.5
Coleraine	19.1	Newry	19.4
Craigavon	21.7	Omagh	31.0
Londonderry	25.9	Strabane	13.3
Dungannon	17.6		

(b) district council areas

Antrim	31.1	Down	17.5
Ards	11.1	Dungannon	17.9
Armagh	23.8	Fermanagh	18.1
Ballymena	21.6	Larne	10.4
Ballymoney	13.5	Limavady	17.0
Banbridge	11.4	Lisburn	17.6
Belfast	53.2	Magherafelt	15.9
Carrickfergus	10.6	Moyle	13.8
Castlereagh	32.1	Newry and Mourne	19.5
Coleraine	21.4	Newtownabbey	13.3
Cookstown	11.3	North Down	13.6
Craigavon	23.5	Omagh	30.8
Derry	29.9	Strabane	12.2

(c) constituencies

Belfast East	33.8	Mid Ulster	12.8
Belfast North	42.6	Newry and Armagh	27.0
Belfast South	62.3	North Antrim	18.4
Belfast West	45.6	North Down	12.9
East Antrim	10.1	South Antrim	20.4
East Londonderry	19.8	South Down	13.7
Fermanagh and South Tyrone	19.6	Strangford	18.3
Foyle	29.9	Upper Bann	22.0
Lagan Valley	17.4	West Tyrone	22.9

Notes:

1. The economically active population is taken as those economically active aged 16-74 as recorded in the 2001 census of population. Area is where the economically active population lives.

2. The estimates given of public sector jobs are from the Census of Employment and refer to the number of employee jobs in the public sector at September 2005. The public sector comprises Central Government (including bodies under the aegis of Central Government), Local Government and Public Corporations.

3. The most up-to-date employee jobs estimates for the public sector are available from the Quarterly Employment Survey (QES) with the most recent data available relating to March 2007. However these estimates are only available at Northern Ireland level. Employee jobs figures below Northern Ireland level are only available from the biennial Census of Employment with the most recent figures relating to September 2005.

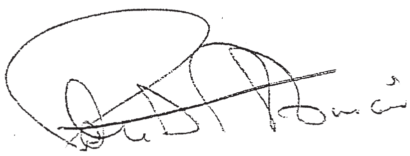
4. The Census of Employment has been carried out biennially since 1987 and covers all employers in non-agricultural sectors. Results are available at detailed levels of disaggregation and geographical location (subject to confidentiality being maintained), including a split by public and private sector. Sub Northern Ireland analysis from the Census of Employment is primarily based on the location of the jobs, not on the home address of the employees. Furthermore, in a small number of instances where employers were not able to provide figures by actual location, the employees were allocated to the address where pay records were held (e.g. head office). The re-location or change of reporting

procedures by large employers can therefore affect the Census of Employment sub NI analysis.

5. The Census of Employment (and the QES) collect information on the number of persons in full-time and part-time employment. The surveys both count the number of jobs rather than the number of persons with jobs. Therefore a person holding both a full-time and a part-time job, or someone with two part-time jobs, will be counted twice. Persons working 30 hours or less per week are normally regarded as being in part-time employment.

6. The sub-Northern Ireland analysis is based on 1992 ward boundaries, which have been aggregated to form Parliamentary Constituency Areas, District Council Areas and Travel-to-Work Areas. Individual companies were assigned to 1992 wards using the Central Postcode Directory. In the case of Travel-to-Work Areas (TTWAs), the 11 existing TTWAs were constructed from 1984-wards - the data presented is therefore a best fit of 1992 wards.

7. To convert employee jobs data to full-time equivalents, part-time employee jobs were considered to equal 0.5 of a full-time employee job.



The Rt Hon Peter D Robinson MP MLA

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